

PENNANTPARK INVESTMENT CORP

Form N-2/A

April 24, 2017

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As filed with the Securities and Exchange Commission on April 24, 2017.

Securities Act Registration No. 333-216852

Investment Company Act of 1940 File No. 814-00736

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM N-2

Registration Statement under the Securities Act Of 1933

Post-Effective Amendment

Pre-Effective Amendment No. 1

## **PennantPark Investment Corporation**

(Exact name of Registrant as specified in its charter)

590 Madison Avenue

15th Floor

New York, NY 10022

(Address of Principal Executive Offices)

**(212) 905-1000**

**(Registrant's Telephone Number, Including Area Code)**

**Arthur H. Penn**

**c/o PennantPark Investment Corporation**

**590 Madison Avenue**

**15th Floor**

**New York, NY 10022**

**(Name and Address of Agent for Service)**

*Copies to:*

**Thomas Friedmann**

**David Harris**

**William Tuttle**

**Dechert LLP**

**1900 K Street, N.W.**

**Washington, DC 20006-1110**

**APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:**

**As may be practicable after the effective date of this Registration Statement.**

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):

when declared effective pursuant to section 8(c).

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Title of Securities Being Registered	Amount Being Registered	Proposed Maximum	Proposed Maximum	Amount of Registration Fee <sup>(1)</sup>
		Offering Price Per Unit	Aggregate Offering Price <sup>(1)</sup>	
Common Stock, \$0.001 par value <sup>(2)</sup>	\$	\$	\$	\$
Preferred Stock, \$0.001 par value <sup>(2)</sup>				
Warrants <sup>(2)</sup>				
Subscription Rights <sup>(3)</sup>				
Debt Securities <sup>(4)</sup>				
Units <sup>(5)</sup>				
Total	\$	\$	\$ 750,000,000 <sup>(6)</sup>	\$ 86,925 <sup>(7)</sup>

- (1) Estimated pursuant to Rule 457 solely for the purposes of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 6 below, there is being registered hereunder an indeterminate number of shares of common stock, preferred stock, or warrants as may be sold, from time to time. Warrants represent rights to purchase common stock, preferred stock or debt securities.
- (3) Subject to Note 6 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.
- (4) Subject to Note 6 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$750,000,000.
- (5) Subject to Note 6 below, there is being registered hereunder an indeterminate principal amount of units. Each unit may consist of a combination of any one or more of the securities being registered hereunder and may also include securities issued by the U.S. Treasury.
- (6) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$750,000,000.

(7) Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.**

**Subject to Completion**

**PRELIMINARY PROSPECTUS**

**\$750,000,000**

**Common Stock**

**Preferred Stock**

**Warrants**

**Subscription Rights**

**Debt Securities**

**Units**

PennantPark Investment Corporation is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended.

Our investment objectives are to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments primarily made to U.S. middle-market companies in the form of senior secured debt, mezzanine debt and equity investments. We can offer no assurances that we will achieve our investment objectives.

We are managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$750,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, debt securities, or units, which we refer to, collectively, as the securities. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock exclusive of any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors, or (3) under such circumstances as the Securities and Exchange Commission, or the SEC, may permit. See Risk Factors on page 8 and Sales of Common Stock Below Net Asset Value on page 49 of this prospectus for more information.

Our common stock has been approved for quotation on the NASDAQ Global Select Market under the symbol PNNT. The last reported closing price for our common stock on April 20, 2017 was \$7.81 per share, and our net asset value on December 31, 2016 was \$9.11 per share. Our 6.25% notes due 2025, or the 2025 Notes, have been approved for quotation on the New York Stock Exchange, or NYSE, under the symbol PNTA. The last reported closing price of the 2025 Notes on April 20, 2017 was \$25.235 per \$25 of par.

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This prospectus and any accompanying prospectus supplement contain important information you should know before investing in our securities. Please read them before you invest in our securities and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may also obtain such information free of charge or make stockholder inquiries by contacting us in writing at 590 Madison Avenue, New York, NY 10022, by calling us collect at (212) 905-1000 or by visiting our website at [www.pennantpark.com](http://www.pennantpark.com). The information on our website is not incorporated by reference into this prospectus. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information free of charge.

**Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any of our securities, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page 8 of this prospectus.**

**Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.**

Prospectus dated \_\_\_\_\_, 2017

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You should rely only on the information contained in this prospectus and any accompanying prospectus supplement when considering whether to purchase any securities offered by this prospectus. We have not authorized anyone to provide you with additional information, or information different from that contained in this prospectus and any accompanying prospectus supplements. If anyone provides you with different or additional information, you should not rely on it. We are offering to sell and seeking offers to buy, securities only in jurisdictions where offers are permitted. The information contained in or incorporated by reference in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus or such prospectus supplement. We will update these documents to reflect material changes only as required by law. Our business, financial condition, results of operations and prospects may have changed since then.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer from time to time up to \$750,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, debt securities, or units on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. The information contained in this prospectus is accurate only as of the date on the front of this prospectus and our business, financial condition, results of operations and prospectus may have changed since that date. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

**Table of Contents****PROSPECTUS SUMMARY**

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. Some of the statements in this prospectus constitute forward-looking statements, which apply to both us and our consolidated small business investment company, or SBIC, subsidiaries and relate to future events, future performance or financial condition. The forward-looking statements involve risks and uncertainties on a consolidated basis and actual results could differ materially from those projected in the forward-looking statements for many reasons, including those factors discussed in Risk Factors and elsewhere in this prospectus. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. In this prospectus and any accompanying prospectus supplement, except where the context suggests otherwise: the terms we, us, our and Company refer to PennantPark Investment Corporation and its consolidated subsidiaries; PennantPark Investment refers to only PennantPark Investment Corporation; our SBIC Funds refers collectively to our consolidated subsidiaries, PennantPark SBIC LP, or SBIC LP, and its general partner, PennantPark SBIC GP, LLC, and PennantPark SBIC II LP, or SBIC II, and its general partner, PennantPark SBIC GP II, LLC; Taxable Subsidiaries refers to PNNT Cascade Environmental Holdings, LLC, PNNT CI (Galls) Prime Investment Holdings, LLC, PNNT ecoserve, LLC, PNNT Investment Holdings, LLC and PNNT New Gulf Resources, LLC, all of which are consolidated with PennantPark Investment for financial reporting purposes; PennantPark Investment Advisers or Investment Adviser refers to PennantPark Investment Advisers, LLC; PennantPark Investment Administration or Administrator refers to PennantPark Investment Administration, LLC; SBA refers to the Small Business Administration; Credit Facility refers to our multi-currency, senior secured revolving credit facility, as amended and restated; 2025 Notes refers to our 6.25% notes due 2025; 2019 Notes refers to our 4.50% notes due 2019; our Notes refers, collectively, to our 2025 Notes and our 2019 Notes; 1940 Act refers to the Investment Company Act of 1940, as amended; Code refers to the Internal Revenue Code of 1986, as amended; RIC refers to a regulated investment company under the Code; and BDC refers to a business development company under the 1940 Act.*

**General Business of PennantPark Investment Corporation**

PennantPark Investment Corporation is a BDC whose objectives are to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments primarily made to U.S. middle-market companies in the form of senior secured debt, mezzanine debt and equity investments.

We believe middle-market companies offer attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured debt, mezzanine debt and equity investments by investing approximately \$10 million to \$50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor's system) from the national rating agencies. Securities rated below investment grade are often referred to as leveraged loans or high yield securities or junk bonds and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographic regions.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use, our Credit Facility, SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives. For a description of our Credit Facility, please see Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.

**Organization and Structure of PennantPark Investment Corporation**

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PennantPark Investment Corporation, a Maryland corporation organized in January 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we have elected to be treated, and intend to qualify annually, as a RIC under the Code.

Our wholly owned subsidiaries, SBIC LP and SBIC II, were organized as Delaware limited partnerships in May 2010 and July 2012, respectively. SBIC LP and SBIC II received licenses from the SBA to operate as SBICs under Section 301(c) of the Small Business Investment Act of 1958, as amended, or the 1958 Act, in 2010 and 2013, respectively. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally by investing with us in SBA-eligible businesses that meet the investment selection criteria used by PennantPark Investment.

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### **Our Investment Adviser and Administrator**

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing what we believe is an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 25 years of experience in the senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser's inception in 2007, it has raised approximately \$3.0 billion in debt and equity capital and has invested \$6.0 billion in 430 companies with over 170 different financial sponsors through its managed funds.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC and the SBA. The Administrator assists in the determination and publication of our net asset value, or NAV, oversees the preparation and filing of our tax returns, and monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator offers, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. See **Risk Factors** **Risks Relating to our Business and Structure** There are significant potential conflicts of interest which could impact our investment returns for more information.

### **Market Opportunity**

We believe that the limited amount of capital available to middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for us. From our perspective, middle market companies have faced difficulty in raising debt through the capital markets and private markets. We believe that, as a result of the difficulties in the credit markets and fewer sources of capital for middle market companies, we see opportunities for improved risk-reward on our investments. Furthermore, we believe with a large pool of uninvested private equity capital seeking debt capital to complete private investments and a substantial supply of refinancing opportunities, there is an opportunity to attain attractive risk-reward returns with debt investments. See **Business** for more information.

### **Competitive Advantages**

We believe that we have competitive advantages over other capital providers to middle-market companies, such as a management team with an average of over 25 years of experience in senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses, a disciplined investment approach with strong value orientation, an ability to source and evaluate transactions through our Investment Adviser's proactive, research capability and established network and flexible transaction structuring that allows for us to invest across the capital structure. See **Business** for more information.

### **Competition**

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, collateralized loan obligation, or CLO, funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities in middle-market companies can be intense. However, we believe that from time to time there has been a reduction in the amount of debt capital available to middle-market companies, which we believe has resulted in a less competitive environment for making new investments.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. See **Risk Factors** **Risks Relating to our Business and Structure** We operate in a highly competitive market for investment opportunities for more information.



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### **Leverage**

We currently use and expect to continue to use leverage to make investments. As a result, we may continue to be exposed to the risks associated with leverage. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) for more information. We believe that our capital resources provide us with the flexibility to take advantage of market opportunities when they arise. Our use of leverage, as calculated under the asset coverage requirements of the 1940 Act, may generally range between 60% and 80% of our net assets. We cannot assure investors that our leverage will remain within that range. The amount of leverage that we employ will depend on our assessment of the market and other factors at the time of any proposed borrowing. See [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Liquidity and Capital Resources](#) for more information.

### **Operating and Regulatory Structure**

Our investment activities are managed by PennantPark Investment Advisers and supervised by our board of directors, a majority of whom are independent of us. Under our investment management agreement, or the Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. See [Certain Relationships and Transactions](#) [Investment Management Agreement](#) for more information.

We have also entered into an administration agreement, or the Administration Agreement, with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. Our board of directors, a majority of whom are independent of us, provides overall supervision of our activities and the Investment Adviser supervises our day-to-day activities. See [Certain Relationships and Transactions](#) [Administration Agreements](#) for more information.

As a BDC, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See [Regulation](#) for more information. We have elected, and intend to qualify annually, to be treated for federal income tax purposes under the Code as a RIC. See [Material U.S. Federal Income Tax Considerations](#) for more information.

Our wholly-owned SBIC Funds received licenses from the SBA to operate as SBICs under Section 301(c) of the 1958 Act and are regulated by the SBA. The SBA regulates, among other matters, investing activities and periodically examines our SBIC Funds' operations. We serve as the investment adviser and administrator to our SBIC Funds. See [Regulation](#) for more information.

### **Use of Proceeds**

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding debt obligations to invest in new or existing portfolio companies, to capitalize a subsidiary or for other general corporate or strategic purposes. Any supplements to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See [Use of Proceeds](#) for more information.

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### **Ratio of Earnings to Fixed Charges**

For the three months ended December 31, 2016 and the years ended September 30, 2016, 2015, 2014, 2013 and 2012, our ratios of earnings to fixed charges were 3.6x, 0.7x, (0.4)x, 5.5x, 6.0x and 5.4x, respectively. See [Ratio of Earnings to Fixed Charges](#) for more information.

### **Distributions on Common Stock**

We intend to continue making quarterly distributions to our common stockholders. Our quarterly distributions, if any, are determined by our board of directors. See [Distributions](#) for more information.

### **Dividends on Preferred Stock**

We may issue preferred stock from time to time, although we have no immediate intention to do so. Any such preferred stock will be a senior security for purposes of the 1940 Act and, accordingly, subject to the leverage test under the 1940 Act. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock can range from weekly to quarterly and is subject to extension. The dividend rate could be variable and determined for each dividend period. See [Description of our Preferred Stock](#) for more information.

### **Dividend Reinvestment Plan**

We have adopted an [opt-out](#) dividend reinvestment plan that provides for reinvestment of our distributions on behalf of our stockholders unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash distribution, then our stockholders who have not [opted out](#) of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock rather than receiving the cash distribution. Registered stockholders must notify our transfer agent in writing if they wish to [opt-out](#) of the dividend reinvestment plan. See [Dividend Reinvestment Plan](#) for more information.

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### **Plan of Distribution**

We may offer, from time to time, up to \$750 million of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus. We may sell our common stock through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc., or FINRA, the compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 10% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the terms of the particular securities to be offered and the method of the offering of such securities. See [Plan of Distribution](#) for more information.

### **Our Corporate Information**

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on the NASDAQ Global Select Market under the symbol PNNT. Our 2025 Notes are quoted on the NYSE under the symbol PNTA. Our phone number is (212) 905-1000, and our internet website address is [www.pennantpark.com](http://www.pennantpark.com). Information contained on our website is not incorporated by reference into this prospectus or any supplements to this prospectus, and you should not consider information contained on our website to be part of this prospectus or any supplements to this prospectus. We file periodic reports, proxy statements and other information with the SEC and make such reports available on our website free of charge as soon as reasonably practicable. You may read and copy the materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at [www.sec.gov](http://www.sec.gov) that contains material that we file with the SEC on the EDGAR Database.



**Table of Contents****FEES AND EXPENSES**

The following table will assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary from actual results. The following table should not be considered a representation of our future expenses. Actual expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this prospectus or any prospectus supplement contains a reference to fees or expenses paid by you or us or that we will pay, stockholders will indirectly bear such fees or expenses as investors in us.

**Stockholder transaction expenses (as a percentage of offering price)**

Sales load	%	(1)
Offering expenses	%	(2)
Total stockholder expenses	%	

**Estimated annual expenses (as a percentage of average net assets attributable to common shares)<sup>(3)</sup>**

Management fees	3.18%	(4)
Incentive fees	1.75%	(5)
Interest on borrowed funds	4.15%	(6)
Other expenses	1.23%	(7)
<b>Total estimated annual expenses</b>	<b>10.31%</b>	<b>(8)</b>

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.

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- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.
- (3) Net assets attributable to common shares equals average net assets as of December 31, 2016.
- (4) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets on December 31, 2016. Since December 31, 2015 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of base management fees, correlated to our 16% energy cost exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2016, the management fees ratio before the waiver was 3.79%. See [Certain Relationships and Transactions Investment Management Agreement](#) for more information.
- (5) The portion of incentive fees paid with respect to net investment income and capital gains, if any, is based on actual amounts incurred during the three months ended December 31, 2016, annualized for a full year. Such incentive fees are based on performance, vary from period to period and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For purposes of this chart and our Consolidated Financial Statements, our incentive fees on capital gains are calculated in accordance with U.S. generally accepted accounting principles, or GAAP. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future periods, if any, may be substantially different than the fee earned during the three months ended December 31, 2016. Since December 31, 2015 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of incentive fees, correlated to our 16% energy cost exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2016, the incentive fee ratio before the waiver was 2.08%. For more detailed information about the incentive fee, please see [Certain Relationships and Transactions Investment Management Agreement](#) for more information.
- (6) As of December 31, 2016, we had \$396.9 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio, under the 1940 Act. As of such date, we had \$148.1 million in borrowings outstanding under our \$545.0 million Credit Facility, \$71.3 million in aggregate principal of 2025 Notes at an annual interest rate of 6.25% and \$250.0 million in aggregate principal of 2019 Notes at an annual interest rate of 4.50%. As of December 31, 2016, our SBIC Funds had debenture commitments from the SBA in the amount of \$225.0 million, had \$197.5 million outstanding with a weighted average interest rate of 3.44%, exclusive of the 3.43% of upfront fees, and had \$27.5 million remaining unused borrowing capacity subject to customary regulatory requirements. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our Credit Facility. After completing any such offering, we may continue to borrow under our Credit Facility to finance our investment objectives. Annual interest expense on borrowed funds represents actual interest expense incurred for the quarter ended December 31, 2016 annualized for a full year and amendment costs, if any, and we caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table. See [Risk Factors Risks Relating to our Business and Structure](#) We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.
- (7) [Other expenses](#) includes our general and administrative expenses, professional fees, directors' fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on estimated amounts for the current fiscal year.
- (8) Total estimated annual expenses as a percentage of average net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total estimated annual expenses percentage would be for a company that is not leveraged. We may borrow money to leverage our net assets and increase our total assets. The SEC requires that the total estimated annual expenses percentage be calculated as a percentage of net assets (defined as total assets less indebtedness) rather than total assets, which include assets that have been funded with borrowed money. For a presentation and calculation of total annual expenses based on average total assets, see page 34 of this prospectus.

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The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a \$1,000 hypothetical investment in common shares, assuming (1) a 3.00% sales load (underwriting discounts and commissions) and offering expenses totaling 0.51%, (2) total net annual expenses of 8.56% of average net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return.

<b>You would pay the following expenses on a \$1,000 common stock investment</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation)	\$ 116	\$ 270	\$ 413	\$ 728
Assuming a 5% annual return (assumes return from only realized capital gains and thus subject to the capital gains incentive fee)	\$ 125	\$ 293	\$ 447	\$ 772

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses may be greater or less than those assumed. The table above is provided to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. If we were to earn an annual return equal to or less than 5% from net investment income, the incentive fee under our Investment Management Agreement would not be earned or payable. If returns on our investments, including realized capital gains, result in an incentive fee, our expenses, and returns to investors, would be higher. The example assumes that all distributions are reinvested at NAV. Reinvestment of distributions under our dividend reinvestment plan may occur at a price per share that differs from NAV. See [Distributions](#) for more information.

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**RISK FACTORS**

*Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV, the trading price of our common stock, our Notes or any securities we may issue, may decline, and you may lose all or part of your investment.*

**RISKS RELATING TO OUR BUSINESS AND STRUCTURE**

*Global capital markets could enter a period of severe disruption and instability. These market conditions have historically and could again have a materially adverse effect on debt and equity capital markets in the United States, which could have a materially negative impact on our business, financial condition and results of operations.*

The U.S. and global capital markets have experienced periods of disruption characterized by the freezing of available credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market, the failure of major financial institutions and general volatility in the financial markets. During these periods of disruption, general economic conditions deteriorated with material and adverse consequences for the broader financial and credit markets, and the availability of debt and equity capital for the market as a whole, and financial services firms in particular, was reduced significantly. These conditions may reoccur for a prolonged period of time or materially worsen in the future. In addition, uncertainty regarding the United Kingdom referendum decision to leave the European Union (the so called Brexit), continuing signs of deteriorating sovereign debt conditions in Europe and an economic slowdown in China create uncertainty that could lead to further disruptions, instability and weakening consumer, corporate and financial confidence. We may in the future have difficulty accessing debt and equity capital markets, and a severe disruption in the global financial markets, deterioration in credit and financing conditions or uncertainty regarding U.S. government spending and deficit levels, Brexit, European sovereign debt, Chinese economic slowdown or other global economic conditions could have a material adverse effect on our business, financial condition and results of operations.

*Volatility or a prolonged disruption in the credit markets could materially damage our business.*

We are required to record our assets at fair value, as determined in good faith by our board of directors, in accordance with our valuation policy. As a result, volatility in the capital markets may have a material adverse effect on our valuations and our NAV, even if we hold investments to maturity. Volatility or dislocation in the capital markets may depress our stock price below our NAV per share and create a challenging environment in which to raise equity and debt capital. As a BDC, we are generally not able to issue additional shares of our common stock at a price less than our NAV without first obtaining approval for such issuance from our stockholders and our independent directors. Additionally, our ability to incur indebtedness is limited by the asset coverage ratio requirements for a BDC, as defined under the 1940 Act, exclusive of the SBA debentures pursuant to our SEC exemptive relief. Declining portfolio values negatively impact our ability to borrow additional funds under our Credit Facility because our NAV is reduced for purposes of the asset coverage ratio. If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. A lengthy disruption in the credit markets could also materially decrease demand for our investments and could materially damage our business, financial condition and results of operations.

The significant disruption in the capital markets experienced in the past has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. The debt capital that may be available to us in the future may be at a higher cost and have less favorable terms and conditions than those currently in effect. If our financing costs increase and we have no increase in interest income, then our net investment income will decrease. A prolonged inability to raise capital may require us to reduce the volume of investments we originate and could have a material adverse impact on our business, financial condition and results of operations. This may also increase the probability that other structural risks negatively impact us. These situations may arise due to circumstances that we may be unable to control, such as a lengthy disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or recession or an operational problem that affects third parties or us, and could materially damage our business, financial condition and results of operations.

*We could be subject to reduced availability and/or mandatory prepayments under our Credit Facility, our Notes and SBA debentures.*

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In addition to the asset coverage ratio requirements, our Credit Facility and the indenture governing our Notes contain various covenants which, if not complied with, could accelerate repayment under the Credit Facility and our Notes. This could have a material adverse effect on our business, financial condition and results of operations. Our borrowings under our Credit Facility are collateralized by the assets in our investment portfolio, excluding those portfolio investments held by our SBIC Funds. The agreements governing the Credit Facility require us to comply with certain financial and operational covenants. These covenants include:

A requirement to retain our tax status as a RIC;

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A requirement to maintain a minimum amount of stockholder's equity; and

A requirement that our outstanding borrowings under the Credit Facility not exceed a certain percentage of the value of our portfolio.

In addition to the Credit Facility, we have issued our Notes and our SBIC Funds have issued SBA debentures that require us and our SBIC Funds to generate sufficient cash flow to make required interest payments. Further, our SBIC Funds must maintain a minimum capitalization that, if impaired, could materially and adversely affect our liquidity, financial condition and results of operations by accelerating repayment under the SBA debentures. Our borrowings under the SBA debentures are secured by the assets of our SBIC Funds.

Our continued compliance with these covenants depends on many factors, some of which are beyond our control. A material decrease in our NAV in connection with additional borrowings could result in an inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of stockholders' equity. This could have a material adverse effect on our operations, as it would reduce availability under the Credit Facility and could trigger mandatory prepayment obligations under the terms of the Credit Facility and our Notes.

***We operate in a highly competitive market for investment opportunities.***

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with public and private funds, including other BDCs, commercial and investment banks, commercial financing companies, CLO funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, also invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. Many of our potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

Participants in our industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. We do not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that are lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. However, if we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

***Our borrowers may default on their payments, which may have a materially negative effect on our financial performance.***

Our primary business exposes us to credit risk, and the quality of our portfolio has a significant impact on our earnings. Credit risk is a component of our fair valuation of our portfolio companies. Negative credit events will lead to a decrease in the fair value of our portfolio companies.

In addition, market conditions have affected consumer confidence levels, which may harm the business of our portfolio companies and result in adverse changes in payment patterns. Increased delinquencies and default rates would negatively impact our results of operations. Deterioration in the credit quality of our portfolio could have a material adverse effect on our business, financial condition and results of operations. If interest rates rise, some of our portfolio companies may not be able to pay the escalating interest on our loans and may default.

We make long-term loans and debt investments, which may involve a high degree of repayment risk. Our investments with a deferred interest feature, such as original issue discount, or OID, income and payment-in-kind, or PIK, interest, could represent a higher credit risk than investments that must pay interest in full in cash on a regular basis. We invest in companies that may have limited financial resources, typically are highly leveraged and may be unable to obtain financing from traditional sources. Accordingly, a general economic downturn or severe tightening in the credit markets could materially impact the ability of our borrowers to repay their loans, which could significantly damage our business. Numerous other factors may affect a borrower's ability to repay its loan, including the failure to meet its business plan or a downturn in its industry. A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans or foreclosure on the secured assets. This could trigger cross-defaults under other agreements and jeopardize

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our portfolio company's ability to meet its obligations under the loans or debt securities that we hold. In addition, our portfolio companies may have, or may be permitted to incur, other debt that ranks senior to or equally with our securities. This means that payments on such senior-ranking securities may have to be made before we receive any payments on our subordinated loans or debt securities. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in any related collateral and may have a material adverse effect on our financial condition and results of operations.

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***Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.***

As a BDC, we are required to carry our investments at fair value, which is derived from a market value or, if no market value is ascertainable or if market value does not reflect the fair value of such investment in the bona fide determination of our board of directors, then we would carry our investments at fair value, as determined in good faith by or under the direction of our board of directors. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation or loss. Unrealized losses of any given portfolio company could be an indication of such company's inability in the future to meet its repayment obligations to us.

If the fair value of our portfolio companies reflects unrealized losses that are subsequently realized, we could experience reductions of our income available for distribution in future periods that could materially harm our results of operations and cause a material decline in the value of our publicly traded common stock.

***We may be the target of litigation.***

We may be the target of securities litigation in the future, particularly if the trading price of our common stock and our Notes fluctuates significantly. We could also generally be subject to litigation, including derivative actions by our stockholders. Any litigation could result in substantial costs and divert management's attention and resources from our business and cause a material adverse effect on our business, financial condition and results of operations.

***We are dependent upon our Investment Adviser's key personnel for our future success, and if our Investment Adviser is unable to hire and retain qualified personnel or if our Investment Adviser loses any member of its management team, our ability to achieve our investment objectives could be significantly harmed.***

We depend on the diligence, skill and network of business contacts of the senior investment professionals of our Investment Adviser for our future success. We also depend, to a significant extent, on PennantPark Investment Advisers' access to the investment information and deal flow generated by these senior investment professionals and any others that may be hired by PennantPark Investment Advisers. Subject to the overall supervision of our board of directors, the managers of our Investment Adviser evaluate, negotiate, structure, close and monitor our investments. Our future success depends on the continued service of management personnel of our Investment Adviser. The departure of managers of PennantPark Investment Advisers could have a material adverse effect on our ability to achieve our investment objectives. In addition, we can offer no assurance that PennantPark Investment Advisers will remain our Investment Adviser. The Investment Adviser has the right, under the Investment Management Agreement, to resign at any time upon 60 days' written notice, whether we have found a replacement or not.

If our Investment Management Agreement is terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

***We are exposed to risks associated with changes in interest rates that may affect our cost of capital and net investment income.***

Since we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds will increase and the interest rate on investments with an interest rate floor will not increase until interest rates exceed the applicable floor, which will reduce our net investment income. We may use interest rate risk management techniques, such as total return swaps and interest rate swaps, in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act and applicable commodities laws. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions and we will initially have to purchase or develop such expertise, which may diminish the actual benefits of any hedging strategy we employ. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk for more information.

A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments once the interest rate exceeds the applicable floor. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle and may result in a substantial increase of the amount of incentive fees payable to our Investment Adviser with respect to Pre-Incentive Fee Net Investment Income.



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General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in interest rates may result in both lower interest rates on new investments and higher repayments on current investments with higher interest rates, which may have an adverse impact on our net investment income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates or are subject to interest rate floors and also could increase our interest expense on our Credit Facility, thereby decreasing our net investment income. Also, an increase in interest rates available to investors could make an investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

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***Our financial condition and results of operation depend on our ability to manage future growth effectively.***

Our ability to achieve our investment objectives depends on our ability to grow, which depends, in turn, on our Investment Adviser's ability to identify, invest in and monitor companies that meet our investment selection criteria. Accomplishing this result on a cost-effective basis is largely a function of our Investment Adviser's structuring of the investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. The management team of PennantPark Investment Advisers has substantial responsibilities under our Investment Management Agreement. In order for us to grow, our Investment Adviser will need to hire, train, supervise and manage new employees. However, we can offer no assurance that any current or future employees will contribute effectively to the work of, or remain associated with, the Investment Adviser. We caution you that the principals of our Investment Adviser or Administrator may also be called upon to provide and currently do provide managerial assistance to portfolio companies and other investment vehicles, including other BDCs, which are managed by the Investment Adviser. Such demands on their time may distract them or slow our rate of investment. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

***We are highly dependent on information systems and systems failures could have a material adverse effect on our business, financial condition and results of operations.***

Our business depends on the communications and information systems, including financial and accounting systems, of the Investment Adviser, the Administrator and our sub-administrator. Any failure or interruption of such systems could cause delays or other problems in our activities. This, in turn, could have a material adverse effect on our business, financial condition and results of operations.

***We may not replicate the historical performance of other investment companies and funds with which our senior and other investment professionals have been affiliated.***

The 1940 Act imposes numerous constraints on the investment activities of BDCs. For example, BDCs are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded public companies (public companies with a market capitalization of less than \$250 million), cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. These constraints may hinder the Investment Adviser's ability to take advantage of attractive investment opportunities and to achieve our investment objectives. In addition, the investment philosophy and techniques used by the Investment Adviser may differ from those used by other investment companies and funds advised by the Investment Adviser. Accordingly, we can offer no assurance that we will replicate the historical performance of other investment companies and funds with which our senior and other investment professionals have been affiliated, and we caution that our investment returns could be substantially lower than the returns achieved by such other companies.

***Any failure on our part to maintain our status as a BDC would reduce our operating flexibility.***

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility, which could have a material adverse effect on our business, financial condition and results of operations.

***Loss of RIC tax status would substantially reduce our net assets and income available for debt service and distributions.***

We have operated and continue to operate so as to maintain our election to be treated as a RIC under Subchapter M of the Code. If we meet the annual source of income, Diversification Tests, and Annual Distribution Requirement, we generally will not be subject to corporate-level income taxation on income we timely distribute, or deem to distribute, as dividends for U.S. federal income tax purposes to our stockholders. We would cease to qualify for such tax treatment if we were unable to comply with these requirements. In addition, we may have difficulty meeting our Annual Distribution Requirement to our stockholders because, in certain cases, we may recognize income before or without receiving cash representing such income. If we fail to qualify as a RIC, we will have to pay corporate-level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for debt service as well as reduce and/or affect the character and amount of our distributions to our stockholders. Even if we qualify as a RIC, we generally will be subject to a 4% nondeductible excise tax if we do not distribute to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income (adjusted for certain ordinary losses) generally for the one-year period ending on October 31 of the calendar year plus (3) any net ordinary income or capital gain net income for preceding years that was not distributed during such years and on which we were not subject to corporate income tax, or the Excise Tax Avoidance Requirement.

***We may have difficulty paying our Annual Distribution Requirement if we recognize income before or without receiving cash representing such income.***

For federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as OID and PIK interest, which represents interest added to the loan balance and due at the end of the loan term. OID, which could be significant relative to our overall investment assets, and increases in loan balances as a result of PIK interest will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash, such as amounts attributable to foreign currency transactions. Our investments with a deferred interest feature, such as PIK interest, may represent a higher credit risk than loans for which interest must be paid in full in cash on a regular basis. For example, even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is scheduled to occur upon maturity of the obligation.



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The part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide PIK or OID interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

We may have difficulty meeting the tax requirement to distribute at least 90% of the sum of our ordinary income and realized net short-term capital gains, if any, to obtain RIC tax benefits. Accordingly, we may have to sell some of our investments at times or prices we would not consider advantageous, or raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements, which could have a material adverse effect on our business, financial condition and results of operations. If we are not able to obtain cash from other sources, we may lose our RIC tax status and thus be subject to corporate-level income tax.

***Because we intend to distribute substantially all of our income to our stockholders to maintain our tax status as a RIC, we will need to raise additional capital to finance our growth. If funds are not available to us, we may need to curtail new investments, and our common stock value could decline.***

In order to satisfy the requirements to be treated as a RIC for federal income tax purposes, we intend to distribute to our stockholders substantially all of our investment company taxable income and net capital gains each taxable year. However, we may retain all or a portion of our net capital gains and pay applicable income taxes with respect thereto and elect to treat such retained net capital gains as deemed dividend distributions to our stockholders.

As a BDC, we are required to meet a 200% asset coverage ratio of total assets to total senior securities, which includes all of our borrowings, exclusive of the SBA debentures pursuant to SEC exemptive relief, and any preferred stock we may issue in the future. This requirement limits the amount we may borrow. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments or sell additional common stock and, depending on the nature of our leverage, to repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous. In addition, the issuance of additional securities could dilute the percentage ownership of our current stockholders in us.

We are partially dependent on our SBIC Funds for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC Funds may be limited by the SBA regulations governing SBICs from making certain distributions to us that may be necessary to fulfill our requirements to be subject to tax as a RIC for federal income tax purposes. We may have to request a waiver of the SBA's restrictions for our SBIC Funds to make certain distributions to enable us to be treated as a RIC for federal income tax purposes. We cannot assure you that the SBA will grant such waiver, and if our SBIC Funds are unable to obtain a waiver, compliance with the SBA regulations may cause us to incur corporate-level income tax.

***Regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital.***

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of additional senior securities or other indebtedness, the issuance of additional shares of our common stock, the issuance of warrants or subscription rights to purchase certain of our securities, or from securitization transactions or through SBA debentures. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue additional debt securities or preferred securities, which we refer to collectively as senior securities, and we may borrow money from banks, through the SBA debenture program or other financial institutions, up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, the asset coverage ratio requirements permit us to issue senior securities or incur indebtedness subject to certain limitations, exclusive of the SBA debentures pursuant to our SEC exemptive relief. Our ability to pay distributions or issue additional senior securities would be restricted if our asset coverage ratio was not met. If the value of our assets declines, we may be unable to satisfy the asset coverage ratio. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous, which could materially damage our business, financial condition and results of operations.

***Senior Securities.*** As a result of issuing senior securities, including our Notes, we are exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, they would rank senior to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of holders of our common stock. Furthermore, the issuance of preferred securities could have the adverse effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest. Our senior securities may include conversion features that cause them to bear risks more closely associated with an investment in our common stock.

***Additional Common Stock.*** Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below NAV per share without first obtaining certain approvals from our stockholders and our board of directors. Also, subject to the requirements of the 1940 Act, we may issue rights to acquire our common stock at a price below the current NAV per share of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued

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and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. However, when required to be undertaken, the procedures used by the board of directors to determine the NAV per share of our common stock within 48 hours of each offering of our common stock may differ materially from and will necessarily be more abbreviated than the procedures used by the board of directors to determine the NAV per share of our common stock at the end of each quarter because there is a time-intensive process each quarter to determine the NAV per share of our common stock which cannot be completed in 48 hours. The quarterly process includes preliminary valuation conclusions, engagement of independent valuation firms and review by those firms of preliminary valuation conclusions. See

**Determination of Net Asset Value.** By contrast, the procedures in connection with an offering may yield a NAV that is less precise than the NAV determined at the end of each quarter. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current NAV per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with such rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, for us to file a post-effective amendment to a registration statement on Form N-2, we must then be qualified to register our securities under the requirements of Form S-3. We may actually issue shares above or below a future NAV. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders would experience voting dilution.

**Securitization.** In addition to issuing securities to raise capital as described above, we anticipate that in the future, as market conditions permit, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. Even though we expect the pool of loans that we contribute to any such securitization vehicle to be rated below investment grade, because the securitization vehicle's portfolio of loans would secure all of the debt issued by such vehicle, a portion of such debt may be rated investment grade, subject in each case to market conditions that may require such portion of the debt to be over collateralized and various other restrictions. If applicable accounting pronouncements or SEC staff guidance require us to consolidate the securitization vehicle's financial statements with our financial statements, any debt issued by it would be generally treated as if it were issued by us for purposes of the asset coverage ratio applicable to us. In such case, we would expect to retain all or a portion of the equity and/or subordinated notes in the securitization vehicle. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We may hold subordinated debentures in any such securitization vehicle and, if so, we would not consider such securities to be senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of a portion of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and less liquid.

**SBA Debentures.** In addition to issuing securities and using securitizations to raise capital as described above, we have issued and may in the future issue, as permitted under SBA regulations and through our wholly owned subsidiaries, SBIC LP, SBIC II and any future SBIC subsidiary, SBA debentures to generate cash for funding new investments. To issue SBA debentures, we may request commitments for debt capital from the SBA. Our SBIC Funds are and any future SBIC subsidiary may be exposed to any losses on its portfolio of loans, however, such debentures are non-recourse to us.

***Our SBIC Funds may be unable to make distributions to us that will enable us to meet or maintain RIC tax status.***

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level income taxes, we will be required to distribute substantially all of our consolidated investment company taxable income and capital gains net income, including income from our SBIC Funds, each taxable year as dividends to our stockholders. We will be partially dependent on our SBIC Funds for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC Funds may be limited by SBA regulations governing SBICs from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC Funds to make certain distributions to maintain our RIC tax status. We cannot assure you that the SBA will grant such waiver and if our SBIC Funds are unable to obtain a waiver, compliance with the SBA regulations may result in corporate level income tax on us.



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### ***Our SBIC Funds are licensed by the SBA and are subject to SBA regulations.***

Our wholly owned subsidiaries, SBIC LP and SBIC II, received licenses to operate as SBICs under the 1958 Act and are regulated by the SBA. The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and regulates the types of financings and prohibits investing in certain industries. Compliance with SBIC requirements may cause our SBIC Funds to make investments at lower rates in order to qualify investments under the SBA regulations.

Further, SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant regulations. If our SBIC Funds fail to comply with applicable regulations, the SBA could, depending on the severity of the violation, limit or prohibit their use of debentures, declare outstanding debentures immediately due and payable, and/or limit them from making new investments. In addition, the SBA could revoke or suspend our SBIC Funds' licenses for willful or repeated violation of, or willful or repeated failure to observe, any provision of the 1958 Act or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because our SBIC Funds are our wholly owned subsidiaries.

SBA-guaranteed debentures are non-recourse to us, have a 10-year maturity, and may be prepaid at any time without penalty. The interest rate of SBA-guaranteed debentures is fixed at the time of issuance at a market-driven spread over 10-year U.S. Treasury Notes. Leverage through SBA-guaranteed debentures is subject to required capitalization thresholds. Current SBA regulations limit the amount that any single SBIC may borrow to a maximum of \$150.0 million, which is up to twice its regulatory capital, and a maximum of \$350.0 million as part of a group of SBICs under common control.

### ***We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.***

Because we borrow funds to make investments, we are exposed to increased risk of loss due to our use of debt to make investments. A decrease in the value of our investments will have a greater negative impact on the NAV attributable to our common stock than it would if we did not use debt. Our ability to pay distributions may be restricted when our asset coverage ratio is not met, exclusive of the SBA debentures pursuant to SEC exemptive relief, and any cash that we use to service our indebtedness is not available for distribution to our common stockholders.

Our current debt is governed by the terms of our Notes, Credit Facility and the SBA debentures and may in the future be governed by an indenture or other instrument containing covenants restricting our operating flexibility. We, and indirectly our stockholders, bear the cost of issuing and servicing debt. Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may also carry leverage related risks. Leverage magnifies the potential risks for loss and the risks of investing in us, both as detailed below.

Additionally, our SBIC Funds have received borrowed funds and may in the future receive funds from the SBA through its debenture program. In connection with the filing of its initial SBA license application, PennantPark Investment received exemptive relief, in 2011, from the SEC to permit us to exclude the debt of our SBIC Funds from our consolidated asset coverage ratio. Our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than the applicable asset coverage ratio, which while providing increased investment flexibility, would also increase our exposure to risks associated with leverage.

### ***If we incur additional debt, it could increase the risk of investing in our shares.***

We have indebtedness outstanding pursuant to our Notes, Credit Facility and SBA debentures and expect in the future to borrow additional amounts under our Credit Facility or other debt securities, subject to market availability, and, may increase the size of our Credit Facility. We cannot assure you that our leverage will remain at current levels. The amount of leverage that we employ will depend upon our assessment of the market and other factors at the time of any proposed borrowing. Lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or preferred stockholders, if any, and we have granted a security interest in our assets, excluding those of our SBIC Funds, in connection with our Credit Facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. Additionally, the SBA, as a lender and an administrative agent, has a superior claim over the assets of our SBIC Funds in relation to our other creditors. Any future debt issuance will increase our leverage and may be subordinate to our Credit Facility and SBA debentures. In addition, borrowings or debt issuances and SBA debentures, also known as leverage, magnify the potential for loss or gain on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets decreases, then leveraging would cause the NAV attributable to our common stock to decline more than it otherwise would have had we not utilized leverage. Similarly, any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common or preferred stock. Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures.



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As of December 31, 2016, we had outstanding borrowings of \$148.1 million under our Credit Facility, \$250.0 million outstanding under our 2019 Notes, \$71.3 million outstanding under our 2025 Notes and \$197.5 million outstanding under the SBA debentures. Our consolidated debt outstanding was \$666.9 million and had a weighted average annual interest rate at the time of 3.96%, exclusive of the fee on undrawn commitment on our Credit Facility and 3.43% of upfront fees on the SBA debentures. To cover the annual interest on our borrowings of \$666.9 million outstanding at December 31, 2016, at the weighted average annual rate of 3.96%, we would have to receive an annual yield of at least 2.01%. This example is for illustrative purposes only, and actual interest rates on our Credit Facility or any future borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee or incentive fee payable to our Investment Adviser, are and will be borne by our common stockholders.

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The following table is designed to illustrate the effect on the return to a holder of our common stock of the leverage created by our use of borrowing at December 31, 2016 of 47% of total assets (including such borrowed funds), at the weighted average rate at the time of 3.96%, and assumes hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. The table also assumes that we will maintain a constant level of leverage and weighted average interest rate. The amount of leverage and cost of borrowing that we use will vary from time to time. As can be seen, leverage generally increases the return to stockholders when the portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed return on portfolio (net of expenses) <sup>(1)</sup>	(10.0)%	(5.0)%	5.0%	10.0%
Corresponding return to common stockholders <sup>(2)</sup>	(25.5)%	(14.8)%	(4.1)%	6.6%

(1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.

(2) In order to compute the corresponding return to common stockholders, the assumed return on portfolio is multiplied by the total value of our assets at the beginning of the period to obtain an assumed return to us. From this amount, all interest expense expected to be accrued during the period is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of the beginning of the period to determine the corresponding return to common stockholders.

***We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for loss and the risks of investing in us.***

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the distributions on any preferred stock we issue must be cumulative. If we issue preferred securities they would rank senior to common stock in our capital structure. Payment of distributions on, and repayment of the liquidation preference of, such preferred stock would typically take preference over any distributions or other payments to our common stockholders. Also, preferred stockholders are not typically subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference. Furthermore, preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of our common stockholders. Also, the issuance of preferred securities could have the adverse effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in the best interest of stockholders.

***We may in the future determine to fund a portion of our investments with debt securities, which would magnify the potential for loss and the risks of investing in us.***

As a result of the issuance of our Notes and SBA debentures, we are exposed to typical risks associated with leverage, including an increased risk of loss and an increase in expenses, which are ultimately borne by our common stockholders. Payment of interest on such debt securities must take preference over any other distributions or other payments to our common stockholders. If we issue additional debt securities in the future, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. In addition, such securities may be rated by rating agencies, and in obtaining a rating for such securities, we may be required to abide by operating and investment guidelines that could further restrict our operating flexibility. Furthermore, any cash that we use to service our indebtedness would not be available for the payment of distributions to our common stockholders.

***Our credit ratings may not reflect all risks of an investment in our debt securities.***

Our credit ratings, if any, are an assessment of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our publicly issued debt securities. Our credit ratings, generally may not reflect the potential impact of risks related to market conditions or other factors discussed above on the market value of, or trading market for, any publicly issued debt securities.

***A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our Notes, if any, or change in the debt markets could cause the liquidity or market value of our Notes to decline significantly.***

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when they come due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our Notes. In March 2017, Fitch Ratings, or Fitch, placed our investment grade rating on negative watch due to elevated leverage. This means that there is a more imminent potential for a ratings downgrade. Our credit ratings may not reflect the potential impact of risks relating to the structure or marketing of our Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. Neither we nor

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any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of our Notes of any changes in our credit ratings. The 2019 Notes are rated by Standard & Poor's Ratings Services, or S&P, and Fitch. There can be no assurance that their respective credit ratings will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely by S&P or Fitch if in either of their respective judgments future circumstances relating to the basis of the credit rating, such as adverse changes in our Company, so warrant. The conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future.

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*Market conditions may make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business.*

Our Credit Facility expires and our 2019 Notes mature in June and October 2019, respectively. We utilize proceeds from the Credit Facility and our 2019 Notes to make investments in our portfolio companies. The duration of many of our investments exceeds the duration of our indebtedness under our Credit Facility and 2019 Notes. This means that we will have to extend the maturity of our Credit Facility or refinance our indebtedness in order to avoid selling investments at maturity of any of our debt investments, at which time such sales may be at prices that are disadvantageous to us, which could materially damage our business. In addition, future market conditions may affect our ability to extend or refinance our Credit Facility and 2019 Notes on terms as favorable as those in our existing indebtedness. If we fail to extend or refinance the indebtedness outstanding under our Credit Facility by the time it becomes due and payable, the administrative agent of the Credit Facility may elect to exercise various remedies, including the sale of all or a portion of the collateral securing the Credit Facility, subject to certain restrictions, any of which could have a material adverse effect on our business, financial condition and results of operations. The illiquidity of our investments may make it difficult for us to sell such investments. If we are required to sell our investments on short-term notice, we may not receive the value that we have recorded for such investments, and this could materially affect our results of operations.

*There are significant potential conflicts of interest which could impact our investment returns.*

The professionals of the Investment Adviser and Administrator may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by affiliates of us that currently exist or may be formed in the future. The Investment Adviser and Administrator may be engaged by such funds at any time and without the prior approval of our stockholders or our board of directors. Our board of directors monitors any potential conflict that may arise upon such a development. Accordingly, if this occurs, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. Currently, the executive officers and directors, as well as the current senior investment professionals of the Investment Adviser, may serve as officers and directors of our controlled affiliates and affiliated funds. In addition, we note that any affiliated investment vehicles currently formed or formed in the future and managed by the Investment Adviser or its affiliates may have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Investment Adviser may face conflicts in allocating investment opportunities between us and such other entities. Although the Investment Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by the Investment Adviser or an investment manager affiliated with the Investment Adviser. In any such case, when the Investment Adviser identifies an investment, it is forced to choose which investment fund should make the investment. We may co-invest on a concurrent basis with any other affiliates that the Investment Adviser currently has or forms in the future, subject to compliance with applicable regulations and regulatory guidance, our exemptive relief and our allocation procedures.

In the ordinary course of our investing activities, we pay investment advisory and incentive fees to the Investment Adviser, and reimburse the Investment Adviser for certain expenses it incurs. As a result, investors in our common stock invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Accordingly, there may be times when the management team of the Investment Adviser has interests that differ from those of our stockholders, giving rise to a conflict. For example, the Investment Adviser may seek to invest in more speculative investments in order to increase its incentive fee, which practice could result in higher investment losses, particularly during economic downturns.

We have entered into a license agreement, or the License Agreement, with PennantPark Investment Advisers, pursuant to which the Investment Adviser has agreed to grant us a royalty-free non-exclusive license to use the name PennantPark. The License Agreement will expire (i) upon expiration or termination of the Investment Management Agreement, (ii) if the Investment Adviser ceases to serve as our investment adviser, (iii) by either party upon 60 days written notice or (iv) by the Investment Adviser at any time in the event we assign or attempt to assign or sublicense the License Agreement or any of our rights or duties thereunder without the prior written consent of the Investment Adviser. Other than with respect to this limited license, we have no legal right to the PennantPark name.

In addition, we pay PennantPark Investment Administration, an affiliate of the Investment Adviser, our allocable portion of overhead and other expenses incurred by PennantPark Investment Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. These arrangements may create conflicts of interest that our board of directors must monitor.

*We may experience fluctuations in our quarterly results.*

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in, and the timing of the recognition of, realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. However, as a

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result of our irrevocable election to apply the fair value option to our Credit Facility and our Notes, future decreases of fair value of our debt is expected to have a corresponding increase to our NAV. Similarly, future increases in the fair value of our debt may have a corresponding decrease to our NAV. Any future indebtedness that we elect the fair value option for may have similar effects on our NAV as our Credit Facility and our Notes. This is expected to mitigate volatility in our earnings and NAV. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

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***Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.***

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including conversion to open-end status and, accordingly, preferred stockholders could veto any such changes in addition to any ability of common and preferred stockholders, voting together as a single class, to veto such matters. Restrictions imposed on the declarations and payment of distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our ability to be subject to tax as a RIC for U.S. federal income tax purposes, which could have a material adverse effect on our business, financial condition and results of operations.

***We may in the future issue securities for which there is no public market and for which we expect no public market to develop.***

In order to raise additional capital, we may issue debt, or other securities for which no public market exists, and for which no public market is expected to develop. If we issue shares of our common stock as a component of a unit security, we would expect the common stock to separate from the other securities in such unit after a period of time or upon occurrence of an event and to trade publicly on the NASDAQ Global Select Market, which may cause volatility in our publicly traded common stock. To the extent we issue securities for which no public market exists and for which no public market develops, a purchaser of such securities may not be able to liquidate the investment without considerable delay, if at all. If a market should develop for our debt and other securities, the price may be highly volatile, and our debt and other securities may lose value.

***If we issue preferred stock, other debt securities, convertible debt securities or units, the NAV and market value of our common stock may become more volatile.***

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities, convertible debt or units would likely cause the NAV and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced or entirely eliminated. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the NAV of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in NAV to the holders of our common stock than if we were not leveraged through the issuance of preferred stock, debt securities or convertible debt. This decline in NAV would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios or other covenants which may be required by the preferred stock, debt securities, convertible debt or units or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities, convertible debt or units. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities, convertible debt or units may have different interests than holders of common stock and may at times have disproportionate influence over our business.

***The trading market or market value of any publicly issued debt or convertible debt securities may be volatile.***

If we publicly issue debt or convertible debt securities, such as the 2025 Notes, they initially will not have an established trading market. We cannot assure investors that a trading market for our publicly issued debt or convertible debt securities would develop or be maintained if developed. In addition to our creditworthiness, many factors may have a material adverse effect on the trading market for, and market value of, our publicly issued debt or convertible debt securities.

These factors include the following:

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the time remaining to the maturity of these debt securities;

the outstanding principal amount of debt securities with terms identical or similar to these debt securities;

the supply of debt securities trading in the secondary market, if any;

the redemption, repayment or convertible features, if any, of these debt securities;

the level, direction and volatility of market interest rates; and

market rates of interest higher or lower than rates borne by the debt securities.

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There also may be a limited number of buyers for our debt securities. This too may have a material adverse effect on the market value of the debt securities or the trading market for the debt securities. Our debt securities may include convertible features that cause them to more closely bear risks associated with an investment in our common stock.

*Terms relating to debt redemption may have a material adverse effect on the return on any debt securities.*

If we issue debt securities that are redeemable at our option, we may choose to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In addition, if the debt securities are subject to mandatory redemption, we may be required to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In this circumstance, a holder of our debt securities may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the debt securities being redeemed.

*If we issue subscription rights or warrants for our common stock, your interest in us may be diluted as a result of such rights or warrants offering.*

Stockholders who do not fully exercise rights or warrants issued to them in an offering of subscription rights or warrants to purchase our common stock should expect that they will, at the completion of an offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights or warrants. We cannot state precisely the amount of any such dilution in share ownership because we do not know what proportion of the common stock would be purchased as a result of any such offering.

In addition, if the subscription price or warrant exercise price is less than our NAV per share of common stock at the time of an offering, then our stockholders would experience an immediate dilution of the aggregate NAV of their shares as a result of the offering. The amount of any such decrease in NAV is not predictable because it is not known at this time what the subscription price, warrant exercise price or NAV per share will be on the expiration date of such rights offering or what proportion of our common stock will be purchased as a result of any such offering.

*The impact of recent financial reform legislation on us is uncertain.*

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, became effective in 2010. Although many provisions of the Dodd-Frank Act have delayed effectiveness or will not become effective until the relevant federal agencies issue new rules to implement the Dodd-Frank Act, the Dodd-Frank Act may nevertheless have a material adverse impact on the financial services industry as a whole and on our business, financial condition and results of operations. Accordingly, we are continuing to evaluate the effect the Dodd-Frank Act or implementing its regulations will have on our business, financial condition and results of operations.

*Changes in laws or regulations governing our operations or those of our portfolio companies may adversely affect our business.*

We and our portfolio companies are subject to laws and regulation at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations that govern our operations or those of our portfolio companies could have a material adverse effect on our business, financial condition and results of operations. See Regulation for more information.

*Our board of directors may change our investment objectives, operating policies and strategies without prior notice or stockholder approval.*

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, under the 1940 Act, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, the effects may adversely affect our business and impact our ability to make distributions.

*We are subject to risks associated with cybersecurity and cyber incidents.*

Our business relies on secure information technology systems. These systems are subject to potential attacks, including through adverse events that threaten the confidentiality, integrity or availability of our information resources (i.e., cyber incidents). These attacks could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or



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causing operational disruption and result in disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships, any of which could have a material adverse effect on our business, financial condition and results of operations. As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided by the Investment Adviser and third-party service providers. We, along with our Investment Adviser, have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of the risk of a cyber incident, may be ineffective and do not guarantee that a cyber incident will not occur or that our financial results, operations or confidential information will not be negatively impacted by such an incident.

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**RISKS RELATING TO THE ILLIQUID NATURE OF OUR PORTFOLIO ASSETS**

*We invest in illiquid assets, and our valuation procedures with respect to such assets may result in recording values that are materially different than the values we ultimately receive upon disposition of such assets.*

All of our investments are recorded using broker or dealer quotes, if available, or at fair value as determined in good faith by our board of directors. We expect that most, if not all, of our investments (other than cash and cash equivalents) and the fair value of the Credit Facility will be classified as Level 3 under the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 820, Fair Value Measurements and Disclosures, or ASC 820. This means that the portfolio valuations will be based on unobservable inputs and our own assumptions about how market participants would price the asset or liability. We expect that inputs into the determination of fair value of our portfolio investments and Credit Facility borrowings will require significant management judgment or estimation. Even if observable market data are available, such information may be the result of consensus pricing information or broker quotes, which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by such a disclaimer materially reduces the reliability of such information. As a result, there will be uncertainty as to the value of our portfolio investments.

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. In determining fair value in good faith, we generally obtain financial and other information from portfolio companies, which may represent unaudited, projected or pro forma financial information. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses; we are instead required by the 1940 Act to specifically fair value each individual investment on a quarterly basis. We record unrealized appreciation if we believe that our investment has appreciated in value. Likewise, we record unrealized depreciation if we believe that our investment has depreciated in value. We adjust quarterly the valuation of our portfolio to reflect our board of directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded on our Consolidated Statements of Operations as net change in unrealized appreciation or depreciation.

All of our investments were recorded at fair value as determined in good faith by our board of directors. Our board of directors uses the services of nationally recognized independent valuation firms to aid it in determining the fair value of our investments. The factors that may be considered in fair value pricing of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. Because valuations may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the value received in an actual transaction. Additionally, valuations of private securities and private companies are inherently uncertain. Our NAV could be adversely affected if our determinations regarding the fair value of our investments were materially lower than the values that we ultimately realize upon the disposal of such investments.

*The lack of liquidity in our investments may adversely affect our business.*

We may acquire our investments directly from the issuer in privately negotiated transactions. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. We typically exit our investments when the portfolio company has a liquidity event such as a sale, refinancing, or initial public offering of the company, but we are not required to do so.

The illiquidity of our investments may make it difficult or impossible for us to sell such investments if the need arises, particularly at times when the market for illiquid securities is substantially diminished. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments, which could have a material adverse effect on our business, financial condition and results of operations. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

Investments purchased by us that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the investments, market events, economic conditions or investor perceptions. Domestic and foreign markets are complex and interrelated, so that events in one sector of the world markets or economy, or in one geographic region, can reverberate and have materially negative consequences for other market, economic or regional sectors in a manner that may not be foreseen and which may materially harm our business.

*A general disruption in the credit markets could materially damage our business.*

We are susceptible to the risk of significant loss if we are forced to discount the value of our investments in order to provide liquidity to meet our debt maturities. Our borrowings under our Credit Facility are collateralized by the assets in our investment portfolio (excluding assets held by our SBIC Funds). A general disruption in the credit markets could result in diminished demand for our securities. In addition, with respect to

over-the-counter traded securities, the continued viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

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If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. Our liquidity could be impaired further by an inability to access the capital markets or to draw down our Credit Facility. These situations may arise due to circumstances that we may be unable to control, such as a general disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or an operational problem that affects our counterparties or us, and could materially damage our business.

*We may invest in over-the-counter securities, which have and may continue to face liquidity constraints, to provide us with liquidity.*

The market for over-the-counter traded securities has and may continue to experience limited liquidity and other weakness as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

## **RISKS RELATED TO OUR INVESTMENTS**

*Our investments in prospective portfolio companies may be risky, and you could lose all or part of your investment.*

We intend to invest primarily in senior secured debt, mezzanine debt and selected equity investments issued by U.S. and foreign middle-market companies.

1. **Senior Secured Debt:** When we extend senior secured debt, which we define to include first lien debt, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries, although this may not always be the case. We expect this security interest, if any, to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our debts may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a senior secured debt investment is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.
2. **Mezzanine Debt:** Our mezzanine debt investments, which we define to include second lien secured and subordinated debt, will generally be subordinated to senior secured debt and will generally be unsecured. Our second lien debt is subordinated debt that benefits from a collateral interest in the borrower. As such, other creditors may rank senior to us in the event of insolvency. This may result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we may not receive cash interest or principal prior to the maturity of some of our mezzanine debt investments, such investments may be of greater risk than cash paying loans.
3. **Equity Investments:** We have made and expect to continue to make select equity investments, all of which are subordinated to debt investments. In addition, when we invest in senior secured debt or mezzanine debt, we may acquire warrants to purchase equity investments from time to time. Our goal is ultimately to dispose of these equity investments and realize gains upon our disposition of such interests. However, the equity investments we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity investments, and any gains that we do realize on the disposition of any equity investments may not be sufficient to offset any other losses we experience. In addition, many of the equity securities in which we invest may not pay dividends on a regular basis, if at all. Furthermore, we may hold equity investments in partnerships through a taxable subsidiary for federal income tax purposes. Upon sale or exit of such investments, we may pay taxes at regular corporate tax rates, which will reduce the amount on gains or dividends available for distributions to our stockholders.

In addition, investing in middle-market companies involves a number of significant risks, including:

companies may be highly leveraged, have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;

they typically have shorter operating histories, more limited publicly available information, narrower product lines, more concentration of revenues from customers and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;

they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

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they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our Investment Adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and

they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to refinance their outstanding indebtedness upon maturity.

***Under the 1940 Act we may invest up to 30% of our assets in investments that are not qualifying assets for BDCs. If we do not invest a sufficient portion of our assets in qualifying assets, we could be precluded from investing in assets that we deem to be attractive.***

As a BDC, we may not acquire any asset other than qualifying assets, as defined under the 1940 Act, unless at the time the acquisition is made such qualifying assets represent at least 70% of the value of our total assets. Qualifying assets include investments in U.S. operating companies whose securities are not listed on a national securities exchange and companies listed on a national securities exchange subject to a maximum market capitalization of \$250 million. Qualifying assets also include cash, cash equivalents, government securities and high quality debt securities maturing in one year or less from the time of investment.

We believe that most of our debt and equity investments do and will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets at the time of the proposed investment, we will be prohibited from making any additional investment that is not a qualifying asset and could be forced to forgo attractive investment opportunities. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

***We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we generally are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.***

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on investments in other investment companies. To the extent that we assume large positions in the securities of a small number of issuers, our NAV may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond the Diversification Requirements, we do not have fixed guidelines for portfolio diversification, and our investments could be concentrated in relatively few portfolio companies or industries.

***Economic recessions or downturns could impair our portfolio companies and harm our operating results.***

Many of our portfolio companies are susceptible to economic or industry centric slowdowns or recessions and may be unable to repay debt from us during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our debt investments and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a material decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and materially harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and potential termination of its debt and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company, and any restructuring could further cause adverse effects on our business. Depending on the facts and circumstances of our investments and the extent of our involvement in the management of a portfolio company, upon the bankruptcy of a portfolio company, a bankruptcy court may recharacterize our debt investments as equity investments and subordinate all or a portion of our claim to that of other creditors. This could occur regardless of how we may have structured our investment. In addition, we cannot assure you that a bankruptcy court would not take actions contrary to our interests.

*If we fail to make follow-on investments in our portfolio companies, this could materially impair the value of our portfolio.*

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as follow-on investments, in order to:

increase or maintain in whole or in part our equity ownership percentage;

exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or

attempt to preserve or enhance the value of our investment.

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We have the discretion to make any follow-on investments, subject to the availability of capital resources and regulatory considerations. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. Any failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful transaction or business. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities, or because we are inhibited by compliance with BDC requirements or the desire to maintain our RIC tax status.

***Because we do not generally hold controlling equity interests in our portfolio companies, we are not in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.***

Because we do not generally have controlling equity positions in our portfolio companies, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity for the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company, and may therefore suffer a decrease in the market value of our investments.

***An investment strategy focused primarily on privately held companies, including controlled equity interests, presents certain challenges, including the lack of available or comparable information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.***

We have invested and intend to continue to invest primarily in privately held companies. Generally, little public information exists about these companies, and we rely on the ability of our Investment Adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If they are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose value on our investments. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could have a material adverse impact on our investment returns as compared to companies investing primarily in the securities of public companies.

***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies and our portfolio companies may be highly leveraged.***

We invest primarily in senior secured debt, mezzanine debt and equity investments issued by our portfolio companies. The portfolio companies usually will have, or may be permitted to incur, other debt that ranks equally with, or senior to, our investments, and they may be highly leveraged. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to our debt investments. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

***Our incentive fee may induce the Investment Adviser to make speculative investments.***

The incentive fee payable by us to PennantPark Investment Advisers may create an incentive for PennantPark Investment Advisers to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to our Investment Adviser is calculated based on a percentage of our NAV. This may encourage our Investment Adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock. In addition, our Investment Adviser will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle applicable to the portion of the incentive fee based on net capital gains. As a result, the Investment Adviser may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The part of our incentive fee payable by us to PennantPark Investment Advisers that relates to net investment income is computed and paid on income that has been accrued but that has not been received in cash. PennantPark Investment Advisers is not obligated to reimburse us for any



such incentive fees even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued. As a result, there is a risk that we will pay incentive fees with respect to income that we never receive in cash.

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***Any investments in distressed debt may not produce income and may require us to bear large expenses in order to protect and recover our investment.***

Distressed debt investments may not produce income and may require us to bear certain additional expenses in order to protect and recover our investment. Therefore, to the extent we invest in distressed debt, our ability to achieve current income for our stockholders may be diminished. We also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt in which we invest will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt we hold, there can be no assurance that the securities or other assets received by us in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by us upon completion of an exchange offer or plan of reorganization may be restricted as to resale. If we participate in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, we may be restricted from disposing of such securities.

***We may be obligated to pay our Investment Adviser incentive compensation even if we incur a loss.***

Our Investment Adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. Our Pre-Incentive Fee Net Investment Income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our Consolidated Statements of Operations for that quarter. Thus, we may be required to pay our Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio, NAV or we incur a net loss for that quarter.

***Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.***

Our investment strategy contemplates potential investments in securities of companies located outside of the United States. Investments in securities of companies located outside of the United States would not be qualifying assets under Section 55(a) of the 1940 Act. Investing in companies located outside of the United States may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political, economic and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, economic and political developments. We may employ hedging techniques such as using our Credit Facility's multicurrency capability to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk or, that if we do, such strategies will be effective.

***We may make investments that cause our stockholders to bear investment advisory fees and other expenses on such investments in addition to our management fees and expenses.***

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. To the extent we so invest, we will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay investment advisory fees, consisting of a base management fee and incentive fees, to PennantPark Investment Advisers with respect to investments in the securities and instruments of other investment companies under the Investment Management Agreement. With respect to any such investments, each of our stockholders will bear his or her share of the investment advisory fees of PennantPark Investment Advisers as well as indirectly bearing the investment advisory fees and other expenses of any investment companies in which we invest.

***We may expose ourselves to risks if we engage in hedging transactions.***

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may borrow under a multicurrency credit facility in currencies selected to minimize our foreign currency exposure or, to the extent permitted by the 1940 Act and applicable commodities laws, use instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek

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to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our interest rate or currency positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging designed to gain from those changes in interest rates or foreign currency exposures, for instance, may also limit the opportunity for gain if the changes in the underlying positions should move against such hedges. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

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While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in worse overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations. Our ability to engage in hedging transactions may also be adversely affected by the rules of the Commodity Futures Trading Commission.

### ***The effect of global climate change may impact the operations of our portfolio companies.***

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

## **RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK**

***We may obtain the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock. If we receive such approval from stockholders in the future, we may issue shares of our common stock at a price below the then current NAV per share of common stock. Any such issuance could materially dilute your interest in our common stock and reduce our NAV per share.***

We have in the past obtained the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock in one or more offerings for a twelve-month period, and we may attempt to obtain such approval in the future. Such approval has allowed, and may again allow, us to access the capital markets in a way that we typically are unable to do as a result of restrictions that, absent stockholder approval, apply to BDCs under the 1940 Act.

Any sale or other issuance of shares of our common stock at a price below NAV per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our NAV value per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our NAV per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our NAV per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offerings we make at a price below our then current NAV in the future in a prospectus supplement issued in connection with any such offering.

The determination of NAV in connection with an offering of shares of common stock will involve the determination by our board of directors or a committee thereof that we are not selling shares of our common stock at a price below the then current NAV of our common stock at the time at which the sale is made or otherwise in violation of the 1940 Act unless we have previously received the consent of the majority of our common stockholders to do so and the board of directors decides such an offering is in the best interests of our common stockholders. Whenever we do not have current stockholder approval to issue shares of our common stock at a price per share below our then current NAV per share, the offering price per share (after any distributing commission or discount) will equal or exceed our then current NAV per share, based on the value of our portfolio securities and other assets determined in good faith by our board of directors as of a time within 48 hours (excluding Sundays and holidays) of the sale.

***There is a risk that our stockholders may not receive distributions or that our distributions may not grow over time.***

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage ratio requirements applicable to us as a BDC, we may be limited in our ability to make distributions. Further, if more stockholders opt to receive cash distributions rather than participate in our dividend reinvestment plan, we may be

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forced to liquidate some of our investments and raise cash in order to make distribution payments, which could materially harm our business. Finally, to the extent we make distributions to stockholders which include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders' investment. Although such return of capital may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the future sale of our common stock.

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### ***Investing in our shares may involve an above average degree of risk.***

The investments we make in accordance with our investment objectives may result in a higher amount of risk and volatility than alternative investment options or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

### ***Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.***

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities. If this occurs and continues it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

### ***We may allocate the net proceeds from any offering of our securities in ways with which you may not agree.***

We have significant flexibility in investing the net proceeds of any offering of our securities and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

### ***Our shares may trade at discounts from NAV or at premiums that are unsustainable over the long term.***

Shares of BDCs may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares closed on the NASDAQ Global Select Market at \$7.66 and \$7.52 on December 31, 2016 and September 30, 2016, respectively. Our NAV per share was \$9.11 and \$9.05 as of the same dates. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

### ***The market price of our common stock may fluctuate significantly.***

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;

changes in regulatory policies or tax guidelines, particularly with respect to RICs, BDCs or SBICs;

any loss of our BDC or RIC status or any loss of our subsidiaries' SBIC licenses;

changes in earnings or variations in operating results;

changes in prevailing interest rates;

changes in the value of our portfolio of investments;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

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the inability of our Investment Adviser to employ additional experienced investment professionals or the departure of any of the Investment Adviser's key personnel;

operating performance of companies comparable to us;

general national and international economic trends and other external factors;

general price and volume fluctuations in the stock markets, including as a result of short sales;

conversion features of subscription rights, warrants or convertible debt; and

loss of a major funding source.

Since our initial listing on the NASDAQ Global Select Market, our shares of common stock have traded at a wide range of prices. We can offer no assurance that our shares of common stock will not display similar volatility in future periods.

***We may be unable to invest the net proceeds raised from offerings on acceptable terms, which would harm our financial condition and operating results.***

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less or use the net proceeds from such offerings to reduce then-outstanding obligations under our Credit Facility or any future Credit Facility. We cannot assure you that we will be able to find enough appropriate investments that meet our investment selection criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return.

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The SBA also limits an SBIC's choices to invest idle funds to the following types of securities:

direct obligations of, or obligations guaranteed as to principal and interest by, the U.S. government, which mature within 15 months from the date of the investment;

repurchase agreements with federally insured institutions with a maturity of seven days or less (and the securities underlying the repurchase obligations must be direct obligations of or guaranteed by the federal government);

certificates of deposit with a maturity of one year or less, issued by a federally insured institution; or

a deposit account in a federally insured institution that is subject to a withdrawal restriction of one year or less.

***You may have current tax liabilities on distributions you reinvest in our common stock.***

Under the dividend reinvestment plan, if you own shares of our common stock registered in your own name, you will have all cash distributions automatically reinvested in additional shares of our common stock unless you opt out of the dividend reinvestment plan by delivering a written notice to the plan administrator prior to the record date of the next dividend or distribution. If you have not opted out of the dividend reinvestment plan, you will be deemed to have received, and for federal income tax purposes will be taxed on, the amount reinvested in our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, you may have to use funds from other sources to pay your income tax liabilities on the value of the common stock received. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Distributions for more information.

***There is a risk that our common stockholders may receive our stock as distributions in which case they may be required to pay taxes in excess of the cash they receive.***

We may distribute our common stock as a dividend of our taxable income and a stockholder could receive a portion of the dividends declared and distributed by us in shares of our common stock with the remaining amount in cash. A stockholder will be considered to have recognized dividend income generally equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. The total dividend declared would be taxable income to a stockholder even though he or she may only receive a relatively small portion of the dividend in cash to pay any taxes due on the dividend. We have not elected to distribute stock as a dividend but reserve the right to do so.

***We incur significant costs as a result of being a publicly traded company.***

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, or the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and other rules implemented by the SEC and the listing standards of the NASDAQ Stock Market LLC and NYSE.

***Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.***

The Maryland General Corporation Law, our charter and our bylaws contain provisions that may discourage, delay or make more difficult a change in control of us or the removal of our directors. We are subject to the Maryland Business Combination Act, or the Business Combination Act, the application of which is subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer.

In addition, our bylaws exempt from the Maryland Control Share Acquisition Act, or the Control Share Acquisition Act, acquisitions of our common stock by any person. If we amend our bylaws to repeal the exemption from such act, it may make it more difficult for a third party to



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obtain control of us and increase the difficulty of consummating such an offer. Our bylaws require us to consult with the SEC staff before we repeal such exemption. Also, our charter provides for classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorize our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue.

These anti-takeover provisions may inhibit a change of control in circumstances that could give our stockholders the opportunity to realize a premium over the market price for our common stock. See Description of our Capital Stock Provisions of the Maryland General Corporation Law and our Charter and Bylaws.

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**RISKS RELATING TO AN INVESTMENT IN OUR DEBT SECURITIES**

*Our Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.*

Our Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, our Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. Effective subordination means that in any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of our Notes. As of December 31, 2016 and September 30, 2016, we had \$148.1 million and \$50.3 million, respectively, outstanding under the Credit Facility. The Credit Facility is secured by substantially all of the assets in our portfolio (other than assets held by our SBIC Funds), and the indebtedness under the Credit Facility is therefore effectively senior in right of payment to our Notes to the extent of the value of such assets.

*Our Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.*

Our Notes are obligations exclusively of PennantPark Investment Corporation and not of any of our subsidiaries. None of our subsidiaries are or act as guarantors of our Notes and neither the 2019 Notes nor the 2025 Notes is required to be guaranteed by any subsidiaries we may acquire or create in the future. Our secured indebtedness with respect to the SBA debentures is held through our SBIC Funds. The assets of any such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of our Notes.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including holders of preferred stock, if any, of our subsidiaries) will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of our Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, our Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. As of December 31, 2016 and September 30, 2016, our SBIC Funds had \$225.0 million in debt commitments, of which \$197.5 million was drawn. All of such indebtedness is structurally senior to our Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to our Notes.

*The indenture under which our Notes were issued contains limited protection for their respective holders.*

The indenture under which our Notes were issued offers limited protection to their respective holders. The terms of the indenture and our Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on an investment in our Notes. In particular, the terms of the indentures and our Notes do not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to our Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to our Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore would rank structurally senior to our Notes and (4) securities, indebtedness or other obligations issued or incurred by our subsidiaries that would be senior in right of payment to our equity interests in our subsidiaries and therefore would rank structurally senior in right of payment to our Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

pay distributions on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to our Notes;

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sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of distributions or other amounts to us from our subsidiaries.

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Furthermore, the terms of the indenture and our Notes do not protect their respective holders in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity, except as required under the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of our Notes may have important consequences for their holders, including making it more difficult for us to satisfy our obligations with respect to our Notes or negatively affecting their trading value.

Certain of our current debt instruments include more protections for their respective holders than the indenture and our Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and our Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of our Notes.

***An active trading market for our Notes may not develop, which could limit their market price or the ability of their respective holders to sell them. If a rating agency assigns our Notes a non-investment grade rating, they may be subject to greater price volatility than similar securities without such a rating.***

We have not and do not intend to list the 2019 Notes on any securities exchange or for quotation on any automated dealer quotation system. We have listed the 2025 Notes on the NYSE. However, we cannot provide any assurances that an active trading market will develop for the 2019 Notes and 2025 Notes or that their holders will be able to sell them. Our Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. If a rating agency assigns our Notes a non-investment grade rating, they may be subject to greater price volatility than securities of similar maturity without such a non-investment grade rating. We cannot assure holders of our Notes that a liquid trading market will develop for them, that holders will be able to sell their 2019 Notes and 2025 Notes at a particular time or that the price holders receive upon such sale will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for our Notes may be harmed. Accordingly, holders of our Notes may be required to bear the financial risk for an indefinite period of time.

***If we default on our obligations to pay our other indebtedness, we may not be able to make payments on our Notes.***

Any default under the agreements governing our indebtedness, including a default under our Credit Facility or under other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on our Notes and substantially decrease their market value. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under our Credit Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the agreements relating to our Credit Facility or other debt that we may incur in the future to avoid being in default. If we breach our covenants under our Credit Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under our Credit Facility, could proceed against the collateral securing the debt. Because our Credit Facility has, and any future debt will likely will have, customary cross-default provisions, if the indebtedness thereunder or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

***FATCA withholding may apply to payments to certain foreign entities.***

Payments made under our Notes to a foreign financial institution or non-financial foreign entity (including such an institution or entity acting as an intermediary) may be subject to a U.S. withholding tax of 30% under a U.S. federal tax law (commonly known as FATCA). This tax may apply to certain payments of interest as well as payments made upon maturity, redemption, or sale of our Notes, unless the foreign financial institution or non-financial foreign entity complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. Holders of our Notes should consult their own tax advisors regarding FATCA and how it may affect their investment in our Notes.



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**FORWARD-LOOKING STATEMENTS**

This prospectus contains statements that constitute forward-looking statements, which relate to us and our consolidated subsidiaries regarding future events or our future performance or future financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our Company, our industry, our beliefs and our assumptions. The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

our future operating results;

our business prospects and the prospects of our prospective portfolio companies;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the impact of a protracted decline in the liquidity of credit markets on our business;

the impact of investments that we expect to make;

the impact of fluctuations in interest rates and foreign exchange rates on our business and our portfolio companies;

our contractual arrangements and relationships with third parties;

the valuation of our investments in portfolio companies, particularly those having no liquid trading market;

the ability of our prospective portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our prospective portfolio companies;

the impact of price and volume fluctuations in the stock market;

the ability of our Investment Adviser to locate suitable investments for us and to monitor and administer our investments;

the impact of future legislation and regulation on our business and our portfolio companies; and

the impact of European sovereign debt, Brexit and other world economic and political issues.

We use words such as anticipates, believes, expects, intends, seeks, plans, estimates and similar expressions to identify forward-looking statements. You should not place undue influence on the forward looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in Risk Factors and elsewhere in this prospectus.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans and objectives will be achieved.

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through a supplemental prospectus or through reports that we in the future may file with the SEC, including reports on Form 10-K/Q and current reports on Form 8-K.

You should understand that, under Section 27A(b)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E(b)(2)(B) of the Exchange Act, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in connection with any offering of securities pursuant to this prospectus or in periodic reports we file under the Exchange Act.

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**USE OF PROCEEDS**

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding obligations under our Credit Facility, 2019 Notes, 2025 Notes and/or the SBA debentures, to invest in new or existing portfolio companies or for other general corporate or strategic purposes. Any supplements to this prospectus relating to an offering may more fully identify the use of the proceeds from such offering.

As of December 31, 2016, we had \$396.9 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio, as set forth in the 1940 Act, and \$148.1 million in borrowings outstanding under our \$545.0 million Credit Facility. Borrowings under our Credit Facility bear interest at an annual rate equal to the London Interbank Offered Rate, or LIBOR or L, plus 225 basis points per annum. At December 31, 2016, the weighted average interest rate on the Credit Facility was 2.63%. The Credit Facility is a revolving facility with a stated maturity date of June 25, 2019 and is secured by substantially all of the assets in our investment portfolio, excluding assets of our SBIC Funds. Amounts repaid under our Credit Facility remain available for future borrowings.

As of December 31, 2016, we had \$250.0 million in aggregate principal amount of 2019 Notes outstanding. Interest on the 2019 Notes is paid semi-annually on April 1 and October 1, at a rate of 4.50% per year. The 2019 Notes mature on October 1, 2019. The 2019 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2019 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility.

As of December 31, 2016, we had \$71.3 million in aggregate principal amount of 2025 Notes outstanding. Interest on the 2025 Notes is paid quarterly on February 1, May 1, August 1 and November 1, at a rate of 6.25% per year. The 2025 Notes mature on February 1, 2025. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility.

As of December 31, 2016, our SBIC Funds had \$225.0 million in debt commitments, of which \$197.5 million was drawn. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. At December 31, 2016, the SBA debentures had a weighted average interest rate of 3.44%. The SBA debentures mature between September 2020 and September 2026. The SBA debentures are secured by all the investment portfolio assets of our SBIC Funds and have a priority claim over such assets relative to all other creditors.

See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

We may invest the proceeds from an offering of securities in new or existing portfolio companies, and such investments may take up to a year from the closing of such offering, in part because privately negotiated investments in illiquid securities or private middle-market companies require substantial due diligence and structuring. During this period, we may use the net proceeds from our offering to reduce then-outstanding obligations under our Credit Facility, 2019 Notes, 2025 Notes and/or the SBA debentures or to invest such proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to earn yields on such investments, if any, that are lower than the interest income that we anticipate receiving in respect of investments in non-temporary investments. As a result, any distributions we make during this investment period may be lower than the distributions that we would expect to pay when such proceeds are fully invested in non-temporary investments. See Regulation Temporary Investments for more information.



**Table of Contents****SELECTED FINANCIAL DATA**

We have derived the data below from our audited and unaudited financial data. The Consolidated Statement of Operations data, Per share data, Consolidated Statement of Assets and Liabilities data and Total returns data presented are derived from our audited and unaudited Consolidated Financial Statements. These selected financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations in the accompanying prospectus.

	For the three months ended December 31, 2016		2015	2016	For the years ended September 30, 2015			2012
	(unaudited)				2014	2013		
<b>(Dollar amounts in thousands, except per share data)</b>								
<b>Consolidated Statement of Operations data:</b>								
Total investment income	\$ 31,869	\$ 35,263	\$ 142,071	\$ 161,629	\$ 147,936	\$ 129,187	\$ 113,392	
Total expenses	18,372 <sup>(1)</sup>	20,080 <sup>(1)</sup>	77,997 <sup>(1)</sup>	79,371	76,608	62,189	56,323	
Net investment income	15,041	16,832	70,615	82,258	71,329	66,998	57,069	
Net realized and unrealized gain (loss)	9,008	(57,587)	(51,878)	(92,504)	39,655	24,780	6,284	
Net increase (decrease) in net assets resulting from operations	24,049	(40,755)	18,737	(10,246)	110,983	91,778	63,353	
<b>Per share data:</b>								
Net asset value	9.11	9.02	9.05	9.82	11.03	10.49	10.22	
Net investment income <sup>(2)</sup>	0.21	0.23	0.99	1.10	1.06	1.01	1.08	
Net realized and unrealized gain (loss) <sup>(2)</sup>	0.13	(0.79)	(0.73)	(1.24)	0.60	0.38	0.12	
Net increase (decrease) in net assets resulting from operations <sup>(2)</sup>	0.34	(0.56)	0.26	(0.14)	1.66	1.39	1.20	
Distributions declared <sup>(2), (3)</sup>	0.28	0.28	1.11	1.11	1.15	1.12	1.13	
<b>Consolidated Statement of Assets and Liabilities data:</b>								
Total assets	1,385,612	1,299,520	1,238,936	1,368,778	1,411,827	1,153,327	1,018,968	
Total investment portfolio	1,325,544	1,261,884	1,153,680	1,299,048	1,318,055	1,078,176	990,480	
Borrowings outstanding <sup>(4)</sup>	651,706	601,479	559,589	602,865	526,668	363,900	294,452	
Total net asset value	647,519	647,309	643,367	716,591	828,010	697,506	669,717	
<b>Other data:</b>								
Total return <sup>(5)</sup>	5.51%	(0.28)%	36.64%	(32.51)%	6.76%	17.37%	28.71%	
Number of portfolio companies <sup>(6)</sup>	60	62	56	61	67	61	54	
Yield on debt portfolio <sup>(6)</sup>	11.9%	12.2%	11.9%	12.1%	12.5%	13.0%	13.2%	

(1) Expenses net of base management fee and incentive fee waivers were for the three months ended December 31, 2016 and 2015, \$16,828 and \$18,432, respectively, and for the year ended September 30, 2016, \$71,456.

(2) Based on the weighted average shares outstanding for the respective periods.

(3) The tax status of our distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP and is reported on Form 1099-DIV each calendar year.

(4) At fair value, excluding our SBA debentures.

(5) Based on the change in market price per share during the periods and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan.

(6) Unaudited, at period end.

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(dollar amounts in thousands, except per share data)

	<b>2017 Q1</b>
Total investment income	\$ 31,869
Net investment income	\$ 15,041
Net realized and unrealized gain	\$ 9,008
Net increase in net assets resulting from operations	\$ 24,049
Net increase in net assets resulting from operations per common share*	\$ 0.34
Net asset value per share at the end of the quarter	\$ 9.11
Market value per share at the end of the quarter	\$ 7.66

	<b>2016</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 32,160	\$ 35,540	\$ 39,108	\$ 35,263
Net investment income	\$ 15,157	\$ 17,794	\$ 20,832	\$ 16,832
Net realized and unrealized gain (loss)	\$ 12,552	\$ 10,039	\$ (16,882)	\$ (57,587)
Net increase (decrease) in net assets resulting from operations	\$ 27,709	\$ 27,833	\$ 3,950	\$ (40,755)
Net increase (decrease) in net assets resulting from operations per common share *	\$ 0.37	\$ 0.39	\$ 0.06	\$ (0.56)
Net asset value per share at the end of the quarter	\$ 9.05	\$ 8.94	\$ 8.83	\$ 9.02
Market value per share at the end of the quarter	\$ 7.52	\$ 6.83	\$ 6.06	\$ 6.18

	<b>2015</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Total investment income	\$ 39,122	\$ 40,641	\$ 42,661	\$ 39,205
Net investment income	\$ 20,031	\$ 20,654	\$ 22,096	\$ 19,477
Net realized and unrealized loss	\$ (18,646)	\$ (15,718)	\$ (14,717)	\$ (43,423)
Net increase (decrease) in net assets resulting from operations	\$ 1,385	\$ 4,936	\$ 7,379	\$ (23,946)
Net increase (decrease) in net assets resulting from operations per common share *	\$ 0.02	\$ 0.07	\$ 0.10	\$ (0.32)
Net asset value per share at the end of the quarter	\$ 9.82	\$ 10.04	\$ 10.25	\$ 10.43
Market value per share at the end of the quarter	\$ 6.47	\$ 8.78	\$ 9.05	\$ 9.53

\* Based on the weighted average shares outstanding for the respective periods.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with the selected financial data and our consolidated financial statements and notes thereto appearing elsewhere in this prospectus.*

**Overview**

PennantPark Investment Corporation is a BDC whose objectives are to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments primarily made to U.S. middle-market companies in the form of senior secured debt, mezzanine debt and equity investments.

We believe middle-market companies offer attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured debt, mezzanine debt and equity investments by investing approximately \$10 million to \$50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$1 billion. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the S&P's system) from the national rating agencies. Securities rated below investment grade are often referred to as "leveraged loans" or "high yield" securities or "junk bonds" and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographic regions.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use our Credit Facility, SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

**Organization and Structure of PennantPark Investment Corporation**

PennantPark Investment Corporation, a Maryland corporation organized in January 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we have elected to be treated, and intend to qualify annually, as a RIC under the Code.

Our wholly owned subsidiaries, SBIC LP and SBIC II, were organized as Delaware limited partnerships in 2010 and 2012, respectively. SBIC LP and SBIC II received licenses from the SBA to operate as SBICs under Section 301(c) of the 1958 Act. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally by investing with us in SBA-eligible businesses that meet the investment selection criteria used by PennantPark Investment.

Our investment activities are managed by the Investment Adviser. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their investment management agreements. Our SBIC Funds' investment management agreements do not affect the management and incentive fees on a consolidated basis. We have also entered into an Administration Agreement with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements with us. Our board of directors, a majority of whom are independent of us, supervises our activities, and the Investment Adviser manages our day-to-day activities.

**Revenues**

We generate revenue in the form of interest income on the debt securities we hold and capital gains and distributions, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of senior secured debt or mezzanine debt, typically have terms of three to ten years and bear interest at a fixed or a floating rate. Interest on debt securities is generally payable quarterly or

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semiannually. In some cases, our investments provide for deferred interest payments and PIK interest. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of amendment, commitment, origination, structuring or diligence fees, fees for providing managerial assistance and possibly consulting fees. Loan origination fees, OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and accreted or amortized using the effective interest method as interest income or, in the case of deferred financing cost, as interest expenses. We record prepayment penalties on loans and debt securities as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

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### Expenses

Our primary operating expenses include the payment of a management fee and the payment of an incentive fee to our Investment Adviser, if any, our allocable portion of overhead under our Administration Agreement and other operating costs as detailed below. Our management fee compensates our Investment Adviser for its work in identifying, evaluating, negotiating, consummating and monitoring our investments. Additionally, we pay interest expense on the outstanding debt and unused commitment fees on undrawn amounts under our various debt facilities. We bear all other direct or indirect costs and expenses of our operations and transactions, including:

the cost of calculating our net asset value, including the cost of any third-party valuation services;

the cost of effecting sales and repurchases of shares of our common stock and other securities;

fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments or complementary businesses;

expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

federal and state registration fees and any exchange listing fees;

federal, state, local and foreign taxes;

independent directors' fees and expenses;

brokerage commissions;

fidelity bond, directors and officers, errors and omissions liability insurance and other insurance premiums;

direct costs such as printing, mailing, long distance telephone and staff;

fees and expenses associated with independent audits and outside legal costs;

costs associated with our reporting and compliance obligations under the 1940 Act, the 1958 Act and applicable federal and state securities laws; and

all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

Generally, during periods of asset growth, we expect our general and administrative expenses to be relatively stable or to decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive to the expenses described above.

The SEC requires that estimated Total Annual Expenses be calculated as a percentage of net assets in the chart on page [6] of this prospectus rather than as a percentage of total assets. Total assets include assets that have been funded with borrowed money (leverage). For reference, the chart below illustrates our Total Estimated Annual Expenses as a percentage of average total assets:

**Estimated Annual Expenses (as a Percentage of Average Total Assets)<sup>(1)</sup>**

Base management fees	1.68% <sup>(2)</sup>
Incentive fees	0.92% <sup>(3)</sup>
Interest payments on borrowed funds	2.19% <sup>(4)</sup>
Other expenses	0.65% <sup>(5)</sup>
<b>Total estimated annual expenses</b>	<b>5.44%<sup>(6)</sup></b>

(1) Average Total Assets equals average adjusted gross assets as of December 31, 2016.

(2) The contractual management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets. Since December 31, 2015 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of base management fees, correlated to our 16% energy cost exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. See Certain Relationships and Transactions Investment Management Agreement for more information.

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- (3) The portion of incentive fees paid with respect to net investment income and capital gains, if any, is based on actual amounts incurred during the three months ended December 31, 2016 annualized for a full year. Such incentive fees are based on performance, vary from period to period and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For purposes of this chart and our Consolidated Financial Statements, our incentive fees on capital gains are calculated in accordance with GAAP. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future years, if any, may be substantially different than the fee earned during the three months ended December 31, 2016. Since December 31, 2015 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of base management fees, correlated to our 16% energy cost exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2016, the incentive fee ratio before the waiver was 1.10%. For more detailed information about the incentive fee, please see [Certain Relationships and Transactions](#) [Investment Management Agreement](#) for more information.
- (4) As of December 31, 2016, we had \$396.9 million of unused borrowing capacity, subject to maintenance of the applicable total assets to debt ratio, under the 1940 Act. As of such date, we had \$148.1 million in borrowings outstanding under our \$545.0 million Credit Facility, \$71.3 million in aggregate principal of 2025 Notes at an annual interest rate of 6.25% and \$250.0 million in aggregate principal of 2019 Notes at an annual interest rate of 4.50%. As of December 31, 2016, our SBIC Funds had debenture commitments from the SBA in the amount of \$225.0 million had \$197.5 million outstanding with a weighted average interest rate of 3.44%, exclusive of the 3.43% of upfront fees, and had \$27.5 million remaining unused borrowing capacity subject to customary regulatory requirements. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our Credit Facility. After completing any such offering, we may continue to borrow under our Credit Facility to finance our investment objectives. Annual interest expense on borrowed funds represents actual interest expense incurred for the quarter ended December 31, 2016 annualized for a full year and amendment costs, if any, and we caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the estimate provided in this table. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.
- (5) Other expenses includes our general and administrative expenses, professional fees, directors' fees, insurance costs, expenses of our dividend reinvestment plan and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on estimated amounts for the current fiscal year.
- (6) The table above is intended to assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear as a percentage of our average gross assets as of December 31, 2016. However, we caution you that these percentages are estimates and may vary with changes in the market value of our investments, the amount of equity capital raised and used to invest in portfolio companies and changes in the level of expenses as a percentage of our gross assets. We may borrow money to leverage our net assets and increase our total assets and such leverage will affect both the total annual expenses and gross assets used in deriving the ratios in the above table. Thus, any differences in the estimated expenses and the corresponding level of average asset balances will affect the estimated percentages and those differences could be material.

**PORTFOLIO AND INVESTMENT ACTIVITY**

As of December 31, 2016, our portfolio totaled \$1,325.5 million and consisted of \$522.2 million of senior secured debt, \$442.9 million of second lien secured debt, \$206.7 million of subordinated debt and \$153.7 million of preferred and common equity. Our debt portfolio consisted of 81% variable-rate investments (including 74% with a floor) and 19% fixed-rate investments. As of December 31, 2016, we had two companies on non-accrual, representing 1.1% and 0.3% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of \$74.9 million as of December 31, 2016. Our overall portfolio consisted of 60 companies with an average investment size of \$22.1 million, had a weighted average yield on interest bearing debt investments of 11.9% and was invested 39% in senior secured debt, 33% in second lien secured debt, 16% in subordinated debt and 12% in preferred and common equity.

As of September 30, 2016, our portfolio totaled \$1,153.7 million and consisted of \$397.1 million of senior secured debt, \$425.4 million of second lien secured debt, \$177.6 million of subordinated debt and \$153.6 million of preferred and common equity. Our debt portfolio consisted of 78% variable-rate investments (including 72% with a floor) and 22% fixed-rate investments. As of September 30, 2016, we had four companies on non-accrual, representing 5.3% and 2.8% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of \$100.3 million as of September 30, 2016. Our overall portfolio consisted of 56 companies with an average investment size of \$20.6 million, had a weighted average yield on interest bearing debt investments of 11.9% and was invested 35% in senior secured debt, 37% in second lien secured debt, 15% in subordinated debt and 13% in preferred and common equity.

As of December 31, 2015, our portfolio totaled \$1,261.9 million and consisted of \$477.2 million of senior secured debt, \$481.6 million of second lien secured debt, \$173.1 million of subordinated debt and \$130.0 million of preferred and common equity. Our debt portfolio consisted of 75% variable-rate investments (including 69% with a floor) and 25% fixed-rate investments. As of December 31, 2015, we had three companies on non-accrual, representing 5.4% and 1.2% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of \$165.1 million as of December 31, 2015. Our overall portfolio consisted of 62 companies with an average investment size of \$20.4 million, had a weighted average yield on debt investments of 12.2% and

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was invested 38% in senior secured debt, 38% in second lien secured debt, 14% in subordinated debt and 10% in preferred and common equity.

As of September 30, 2015, our portfolio totaled \$1,299.0 million and consisted of \$399.2 million of senior secured debt, \$612.5 million of second lien secured debt, \$182.5 million of subordinated debt and \$104.8 million of preferred and common equity. Our debt portfolio consisted of 71% variable-rate investments (including 65% with a floor) and 29% fixed-rate investments. As of September 30, 2015, we had four companies on non-accrual, representing 9.4% and 5.5% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of \$125.2 million as of September 30, 2015. Our overall portfolio consisted of 61 companies with an average investment size of \$21.3 million, had a weighted average yield on interest bearing debt investments of 12.1% and was invested 31% in senior secured debt, 47% in second lien secured debt, 14% in subordinated debt and 8% in preferred and common equity.

For the three months ended December 31, 2016, we invested \$229.2 million in nine new and seven existing portfolio companies with a weighted average yield on debt investments of 11.2%. Sales and repayments of investments for the three months ended December 31, 2016 totaled \$64.2 million.



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For the three months ended December 31, 2015, we invested \$130.3 million in four new and six existing portfolio companies with a weighted average yield on debt investments of 11.9%. Sales and repayments of investments for the three months ended December 31, 2015 totaled \$108.1 million.

For the fiscal year ended September 30, 2016, we invested \$330.6 million of investments in four new and 25 existing portfolio companies with a weighted average yield on debt investments of 11.9%. Sales and repayments of investments for the year ended September 30, 2016 totaled \$439.7 million.

For the fiscal year ended September 30, 2015, we invested \$461.3 million of investments in 11 new and 30 existing portfolio companies with a weighted average yield on debt investments of 12.1%. Sales and repayments of investments for the year ended September 30, 2015 totaled \$390.5 million.

For the fiscal year ended September 30, 2014, we invested \$795.1 million of investments in 21 new and 30 existing portfolio companies with a weighted average yield on debt investments of 12.4%. Sales and repayments of investments for the year ended September 30, 2014 totaled \$625.6 million.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to ASC serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

### ***Investment Valuations***

We expect that there may not be readily available market values for many of our investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described in this prospectus. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material.

Our portfolio generally consists of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The

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independent valuation firms review management's preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;

- (4) The audit committee of our board of directors reviews the preliminary valuations of the Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

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Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at bid prices obtained from at least two brokers or dealers, if available, or otherwise by a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting date.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

In addition to using the above inputs in cash equivalents, investments, our Notes and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The carrying value of our consolidated financial liabilities approximates fair value. We adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and our Notes. We elected to use the fair value option for the Credit Facility and our Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred \$0 relating to debt issuance costs during each of the three months ended December 31, 2016 and 2015 and \$0, \$0 and \$8.3 million relating to debt issuance costs for the years ended September 30, 2016, 2015 and 2014, respectively. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility and our Notes are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the SBA debentures. For the three months ended December 31, 2016 and 2015, our Credit Facility and our Notes had a net change in unrealized depreciation of \$5.8 million and \$7.7 million, respectively. For the fiscal years ended September 30, 2016, 2015 and 2014, our Credit Facility and our Notes had a net change in unrealized depreciation (appreciation) of \$3.7 million, \$1.7 million and \$(3.0) million, respectively. As of December 31, 2016, September 30, 2016 and 2015, net unrealized depreciation on our Credit Facility and our Notes totaled \$11.1 million, \$5.2 million and \$1.5 million, respectively. We use a nationally recognized independent valuation service to fair value our Credit Facility and our 2019 Notes in a manner consistent with the valuation process that the board of directors uses to value investments. Our 2025 Notes trade on the NYSE under the ticker PNTA and we use the closing price on the exchange to determine their fair value.



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### ***Revenue Recognition***

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectable. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and then accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts.

### ***Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation***

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in fair values of our portfolio investments, our Credit Facility and our Notes during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

### ***Foreign Currency Translation***

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses at the exchange rates prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, other assets and debt from the fluctuations arising from changes in fair values of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

### ***Payment-in-Kind Interest or PIK***

We have investments in our portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. For us to maintain our ability to be treated as a RIC for federal income tax purposes, substantially all of this income must be paid out to stockholders in the form of dividends for U.S. federal income tax purposes, even though we may not have collected any cash with respect to interest on PIK securities.

### ***Federal Income Taxes***

We have elected to be treated, and intend to qualify annually to maintain our election to be treated, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain source-of-income and quarterly asset diversification requirements. We also must annually distribute dividends for U.S. federal income tax purposes to our stockholders out of assets legally available for distribution of an amount generally at least equal to 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income, determined without regard to any deduction for dividends paid.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year an amount at least equal to the Excise Tax Avoidance Requirement. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such

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distributions in the manner described above, we have retained and may continue to retain such net capital gains or investment company taxable income, contingent on maintaining our ability to be subject to tax as a RIC, in order to provide us with additional liquidity.

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Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and net realized gain recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their appropriate tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

We have formed and expect to continue to form certain Taxable Subsidiaries, which are subject to tax as corporations. These Taxable Subsidiaries allow us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while allowing us to maintain our ability to qualify as a RIC under the Code.

## **RESULTS OF OPERATIONS**

Set forth below are the results of operations for the three months ended December 31, 2016 and 2015.

### ***Investment Income***

Investment income for the three months ended December 31, 2016 was \$31.9 million and was attributable to \$13.2 million from senior secured debt, \$12.7 million from second lien secured debt, \$4.9 million from subordinated debt and \$1.1 million from preferred and common equity, respectively. Investment income for the three months ended December 31, 2015 was \$35.3 million and was attributable to \$12.9 million from senior secured debt, \$17.4 million from second lien secured debt and \$5.0 million from subordinated debt, respectively. The decrease in investment income compared with the same period in the prior year was primarily due to a lower yielding portfolio.

### ***Expenses***

Net expenses for the three months ended December 31, 2016 totaled \$16.8 million. Base management fee for the same period totaled \$5.3 million (after a base management fee waiver of \$1.0 million), incentive fee totaled \$2.9 million (after an incentive fee waiver of \$0.5 million), debt related interest and expenses totaled \$6.7 million, general and administrative expenses totaled \$1.5 million and provision for taxes totaled \$0.4 million. Net expenses for the three months ended December 31, 2015 totaled \$18.4 million. Base management fee for the same period totaled \$5.5 million (after a base management fee waiver of \$1.0 million), incentive fee totaled \$3.2 million (after an incentive fee waiver of \$0.6 million), debt related interest and expenses totaled \$6.7 million, general and administrative expenses totaled \$1.7 million and provision for taxes totaled \$1.3 million. The decrease in expenses compared with the same period in the prior year was primarily due to lower taxes.

### ***Net Investment Income***

Net investment income totaled \$15.0 million, or \$0.21 per share, for the three months ended December 31, 2016, and \$16.8 million, or \$0.23 per share, for the three months ended December 31, 2015. The decrease in net investment income compared to the same period in the prior year was primarily due to the lower yielding portfolio.

### ***Net Realized Gains or Losses***

Sales and repayments of investments for the three months ended December 31, 2016 totaled \$64.2 million and realized losses totaled \$22.2 million. Sales and repayments of investments totaled \$108.1 million and realized losses totaled \$25.4 million for the three months ended December 31, 2015. The change in realized gains/losses was primarily due to changes in the market conditions of our investments and the values at which they were realized.

### ***Unrealized Appreciation or Depreciation on Investments, Credit Facility and our Notes***

For the three months ended December 31, 2016 and 2015, we reported net unrealized appreciation (depreciation) on investments of \$25.4 million and \$(39.9) million, respectively. As of December 31, 2016 and September 30, 2016, our net unrealized depreciation on investments totaled \$74.9 million and \$100.3 million, respectively. The net change in unrealized appreciation (depreciation) on our investments was driven primarily by changes in the capital market conditions, the financial performance of certain portfolio companies and the reversal of unrealized depreciation (appreciation) of investments that were realized.

For the three months ended December 31, 2016 and 2015, we reported net unrealized depreciation on our Credit Facility and our Notes of \$5.8 million and \$7.7 million, respectively. The change compared with the same period in the prior year was primarily due to changes in the capital markets.

*Net Change in Net Assets Resulting from Operations*

Net change in net assets resulting from operations totaled \$24.0 million, or \$0.34 per share, for the three months ended December 31, 2016. This compares to a net change in net assets resulting from operations of \$(40.8) million, or \$(0.56) per share, for the three months ended December 31, 2015. The increase in the net change in net assets from operations compared with the same period in the prior year was primarily due to the continued growth of our portfolio and appreciation of our investments.



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**RESULTS OF OPERATIONS**

Set forth below are our results of operations for the fiscal years ended September 30, 2016, 2015 and 2014.

***Investment Income***

Investment income for the fiscal year ended September 30, 2016 was \$142.1 million and was attributable to \$59.9 million from senior secured debt, \$60.5 million from second lien secured debt, \$20.9 million from subordinated debt and \$0.8 million from preferred and common equity. The decrease in investment income over the prior year was primarily due to a reduction of our portfolio at cost.

Investment income for the fiscal year ended September 30, 2015 was \$161.6 million and was attributable to \$54.3 million from senior secured debt, \$71.1 million from second lien secured debt, \$29.8 million from subordinated debt and \$6.4 million from preferred and common equity. The increase in investment income over the prior year was primarily due to the growth of our portfolio at cost.

Investment income for the fiscal year ended September 30, 2014 was \$147.9 million and was attributable to \$43.0 million from senior secured debt, \$55.2 million from second lien secured debt, \$46.4 million from subordinated debt and \$3.3 million from preferred and common equity.

***Expenses***

Net expenses for the fiscal year ended September 30, 2016 totaled \$71.5 million. Base management fee for the same period totaled \$20.9 million (after a base management fee waiver of \$4.0 million), incentive fee totaled \$13.5 million (after an incentive fee waiver of \$2.5 million), debt related interest and expenses totaled \$27.6 million, general and administrative expenses totaled \$7.1 million and provision for taxes totaled \$2.4 million. The decrease in expenses over the prior year was primarily due to the Management Fees waiver and a smaller portfolio size partially offset by higher taxes.

Expenses for the fiscal year ended September 30, 2015 totaled \$79.4 million. Base management fee for the same period totaled \$26.7 million, incentive fee totaled \$20.6 million, debt related interest and expenses totaled \$26.4 million and general and administrative expenses totaled \$5.7 million. The increase in expenses over the prior year was primarily due to increased borrowing costs, base management fee and incentive fee as a result from the growth of our portfolio.

Expenses for the fiscal year ended September 30, 2014 totaled \$76.6 million. Base management fee for the same period totaled \$24.3 million, incentive fee totaled \$17.8 million, debt related interest and expenses totaled \$28.6 million (including \$8.3 million associated with the 2019 Notes and expansion of our Credit Facility), general and administrative expenses totaled \$5.8 million and taxes of \$0.1 million.

***Net Investment Income***

Net investment income totaled \$70.6 million or \$0.99 per share, \$82.3 million or \$1.10 per share and \$71.3 million or \$1.06 per share for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. The decrease in net investment income per share for fiscal year ended September 30, 2016 compared to the prior year was primarily due to the repayments of higher yielding investments.

***Net Realized Gains or Losses***

Sales and repayments of investments for the fiscal years ended September 30, 2016, 2015 and 2014 totaled \$439.7 million, \$390.5 million and \$625.6 million, respectively, and net realized (losses) gains totaled \$(80.5) million, \$30.1 million and \$30.2 million, respectively. The increase in realized losses for fiscal year ended September 30, 2016 compared to the prior year was primarily due to certain portfolio companies sales or restructurings.

***Unrealized Appreciation or Depreciation on Investments, Credit Facility and our Notes***

Net unrealized appreciation (depreciation) on investments totaled \$24.9 million, \$(124.3) million and \$12.5 million for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. Net unrealized depreciation (appreciation) on our Credit Facility and our Notes totaled \$3.7 million, \$1.7 million and \$(3.0) million for the same periods, respectively. The net change in unrealized appreciation (depreciation) on our investments for fiscal year ended September 30, 2016 compared to the prior year was driven primarily by changes in the capital market conditions, financial performance of certain portfolio companies, and the reversal of unrealized depreciation (appreciation) of investments sold or restructured. The change in unrealized (appreciation) depreciation on the Credit Facility and our Notes for fiscal year ended September 30,

2016 compared to the prior year was due to the fluctuating interest rate environment.

***Net Change in Net Assets Resulting From Operations***

Net change in net assets resulting from operations totaled \$18.7 million or \$0.26 per share, \$(10.2) million or \$(0.14) per share and \$111.0 million or \$1.66 per share for the fiscal years ended September 30, 2016, 2015 and 2014, respectively. The increase in the net change in net assets from operations for fiscal year ended September 30, 2016 compared to the prior year was primarily due to the change in portfolio investment values offset by higher net investment income.

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**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, debt capital and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our debt capital and proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

As of December 31, 2016, we had a \$545 million multi-currency Credit Facility with certain lenders and SunTrust Bank, acting as administrative agent, and JPMorgan Chase Bank, N.A., acting as syndication agent for the lenders. As of December 31, 2016, September 30, 2016 and 2015, there was \$148.1 million, \$50.3 million and \$136.9 million (including a temporary draw of \$30.0 million), respectively, in outstanding borrowings under the Credit Facility. The Credit Facility had a weighted average interest rate of 2.63%, 2.76% and 3.07% as of December 31, 2016, September 30, 2016 and 2015, respectively, exclusive of the fee on undrawn commitments. The annualized weighted average cost of debt for the three months ended December 31, 2016 and 2015, inclusive of the fee on the undrawn commitment on the Credit Facility and upfront fees on SBA debentures, was 4.51% and 4.50%, respectively. The annualized weighted average cost of debt for the years ended September 30, 2016, 2015 and 2014, inclusive of the fee on the undrawn commitment on the Credit Facility and upfront fees on SBA debentures was 4.35%, 4.54% and 3.85%, respectively. The Credit Facility is a five-year revolving facility with a stated maturity date of June 25, 2019, a one-year term-out period following its fourth year and pricing is set at 225 basis points over LIBOR. As of December 31, 2016, September 30, 2016 and 2015, we had \$396.9 million, \$494.7 million and \$408.1 million of unused borrowing capacity under our Credit Facility, respectively, subject to the regulatory restrictions. The Credit Facility is secured by substantially all of our assets excluding assets held by our SBIC Funds.

For a complete list of covenants contained in the Credit Facility, see our Form 8-K filed on June 30, 2014 and the Credit Facility agreement filed as Exhibit 99.2 thereto and incorporated by reference herein. As of December 31, 2016, we were in compliance with the terms of our Credit Facility.

In September 2014, we issued \$250.0 million in aggregate principal amount of 2019 Notes, for net proceeds of \$245.5 million after underwriting discounts and offering costs. Interest on the 2019 Notes is paid semi-annually on April 1 and October 1, at a rate of 4.50% per year. The 2019 Notes mature on October 1, 2019. The 2019 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2019 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility. Please see our base indenture filed as Exhibit (d)(8) to our post effective amendment filed on January 22, 2013, or the Base Indenture, and the supplemental indenture filed as Exhibit (d)(11) in our post-effective amendment filed on September 23, 2014, for more information.

In January 2013, we issued \$71.3 million in aggregate principal amount of 2025 Notes. Interest on the 2025 Notes is paid quarterly on February 1, May 1, August 1 and November 1, at a rate of 6.25% per year. The 2025 Notes mature on February 1, 2025. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility. Please see our Base Indenture and the supplemental indenture filed as Exhibit (d)(9) to our post-effective amendment filed on January 22, 2013 for more information.

We may raise additional equity or debt capital through both registered offerings off our shelf registration statement and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA, among other sources. Any future additional debt capital we incur, to the extent it is available, may be issued at a higher cost and on less favorable terms and conditions than our current Credit Facility, SBA debentures or our Notes. Furthermore, our Credit Facility availability depends on various covenants and restrictions. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate or strategic purposes such as our stock repurchase program.

On May 6, 2015, we announced a share repurchase plan which allowed us to repurchase up to \$35.0 million of our outstanding common stock in the open market at prices below our net asset value as reported in our then most recently published consolidated financial statements. The program expired on May 6, 2016. For the three months ended December 31, 2016 and the fiscal years ended September 30, 2016 and 2015, we repurchased zero, 1.9 million and 2.1 million shares of common stock in open market transactions for an aggregate cost (including transaction costs) of zero, \$12.2 and \$17.9 million, respectively. For the fiscal year ended September 30, 2014, we did not have a repurchase plan in place.

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For the three months ended December 31, 2016 and the fiscal years ended September 30, 2016 and 2015, we did not complete any equity offerings. This compares to the sale of 8.5 million shares of our common stock, resulting in net proceeds of \$95.4 million for the fiscal year ended September 30, 2014. Any decision to sell shares below the then current NAV per share of our common stock is subject to stockholder approval and a determination by our board of directors that such issuance and sale is in our and our stockholders' best interests. Any sale or other issuance of shares of our common stock at a price below NAV per share results in immediate dilution to our stockholders' interests in our common stock and a reduction in our NAV per share.

Our SBIC Funds are able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid-in and is subject to customary regulatory requirements including an examination by the SBA. We have funded SBIC LP with \$75.0 million of equity capital and it had SBA debentures outstanding of \$150 million as of December 31, 2016. We have funded SBIC II with \$52.5 million of equity capital and it had SBA debentures outstanding of \$47.5 million and commitments from the SBA for another \$27.5 million of debentures as of December 31, 2016. As of December 31, 2016, 5.4% and 3.8% of our assets were invested in SBIC LP and SBIC II, respectively. SBA debentures are non-recourse to us and may be prepaid at any time without penalty. The interest rate of SBA debentures is fixed at the time of issuance, often referred to as pooling, at a market-driven spread over 10-year U.S. Treasury Notes. Under current SBA regulations, a SBIC may individually borrow a maximum of \$150 million, which is up to twice its potential regulatory capital, and as part of a group of SBICs under common control may borrow a maximum of \$350.0 million in the aggregate.

As of December 31, 2016, September 30, 2016 and 2015, our SBIC Funds had \$225.0 million in debt commitments, of which \$197.5 million, \$197.5 million and \$150.0 million was drawn, respectively. As of December 31, 2016, September 30, 2016 and 2015, the unamortized fees on the SBA debentures was \$4.1 million \$4.3 million and \$3.7 million, respectively. The SBA debentures' upfront fees of 3.43% consist of a commitment fee of 1.00% and an issuance discount of 2.43%, which are being amortized.

Our fixed-rate SBA debentures as of December 31, 2016 were as follows:

Issuance Dates	Maturity	Fixed All-in coupon rate <sup>(1), (2)</sup>	As of December 31, 2016 and September 30, 2016	As of September 30, 2015
			Principal Balance	Principal Balance
September 22, 2010	September 1, 2020	3.50%	\$ 500,000	\$ 500,000
March 29, 2011	March 1, 2021	4.46	44,500,000	44,500,000
September 21, 2011	September 1, 2021	3.38	105,000,000	105,000,000
March 23, 2016	March 1, 2026	2.86	22,500,000	
September 21, 2016	September 1, 2026	2.41	25,000,000	
Weighted Average Rate / Total		3.44%	\$ 197,500,000	\$ 150,000,000

<sup>(1)</sup> Excluding 3.43% of upfront fees.

<sup>(2)</sup> As of September 30, 2015, the fixed all-in coupon rate was 3.70%.

The SBIC program is designed to stimulate the flow of capital into eligible businesses. Under SBA regulations, our SBIC Funds are subject to regulatory requirements, including making investments in SBA eligible businesses, investing at least 25% of regulatory capital in eligible smaller businesses, as defined under the 1958 Act, placing certain limitations on the financing terms of investments, prohibiting investment in certain industries and requiring capitalization thresholds that limit distributions to us, and are subject to periodic audits and examinations of their financial statements that are prepared on a basis of accounting other than GAAP (for example, fair value, as defined under ASC 820, is not required to be used for assets or liabilities for such compliance reporting). As of December 31, 2016, our SBIC Funds were in compliance with their regulatory requirements.

In accordance with the 1940 Act, with certain limited exceptions, PennantPark Investment is only allowed to borrow amounts such that our asset coverage ratio is met after such borrowing. As of December 31, 2016, September 30, 2016 and September 30, 2015, we excluded the principal amounts of our SBA debentures from our asset coverage ratio pursuant to SEC exemptive relief. In 2011, we received exemptive relief from the SEC allowing us to modify the asset coverage ratio requirement to exclude the SBA debentures from the calculation. Accordingly, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200% which, while providing increased investment flexibility, also increases our exposure to risks associated with leverage.

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At December 31, 2016, September 30, 2016 and September 30, 2015, we had cash and cash equivalents of \$45.3 million, \$75.6 million and \$49.6 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities used cash of \$108.3 million for the three months ended December 31, 2016, and our financing activities provided cash of \$77.9 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily for net borrowings under our Credit Facility.

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Our operating activities used cash of \$0.9 million for the three months ended December 31, 2015, and our financing activities used cash of \$22.7 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities used cash primarily for our stock repurchase plan.

Our operating activities provided cash of \$157.7 million for the fiscal year ended September 30, 2016, and our financing activities used cash proceeds of \$132.7 million for the same period. Our operating activities provided cash primarily from sales and repayments on our investments and our financing activities used cash primarily for net repayments on our Credit Facility and our stock repurchase program.

Our operating activities provided cash of \$3.0 million for the fiscal year ended September 30, 2015, and our financing activities used cash proceeds of \$20.1 million for the same period. Our operating activities provided cash primarily from sales and repayments on our investments and our financing activities used cash primarily for our stock repurchase program and to repay certain amounts under our Credit Facility.

Our operating activities used cash of \$172.5 million for the fiscal year ended September 30, 2014, and our financing activities provided cash proceeds of \$180.9 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from the issuance of the 2019 Notes, our equity offering and net draws under the Credit Facility.

**Contractual Obligations**

A summary of our significant contractual payment obligations as of December 31, 2016, including borrowings under our various debt facilities and other contractual obligations, are as follows:

	Total	Payments due by period (in millions)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$ 148.1	\$	\$ 148.1	\$	\$
SBA debentures	197.5			150.0	47.5
2019 Notes	250.0		250.0		
2025 Notes	71.3				71.3
Total debt outstanding <sup>(1)</sup>	666.9		398.1	150.0	118.8
Unfunded investments <sup>(2)</sup>	7.6			6.5	1.1
Total contractual obligations	\$ 674.5	\$	\$ 398.1	\$ 156.5	\$ 119.9

(1) The annualized weighted average cost of debt as of December 31, 2016, excluding debt issuance costs, was 3.96% exclusive of the fee on the undrawn commitment on the Credit Facility and 3.43% of upfront fees on SBA debentures.

(2) Unfunded debt and equity investments are disclosed in the Consolidated Schedule of Investments and Note 11 of our Consolidated Financial Statements. We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2017, PennantPark Investment Advisers serves as our Investment Adviser. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their investment management agreements with us. Our SBIC Funds investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our average adjusted gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2017, PennantPark Investment Administration furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements, which are intended to have no effect on the consolidated administration fee. If requested to provide managerial assistance to our portfolio companies, we or the Administrator will be paid an additional amount based on the services provided. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its

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obligations under our Administration Agreement, including rent and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

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If any of our contractual obligations discussed above is terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement and our Administration Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

### **Off-Balance Sheet Arrangements**

We currently engage in no off-balance sheet arrangements other than our funding requirements for the unfunded investments described above.

### **Distributions**

In order to be treated as a RIC for federal income tax purposes and to not be subject to corporate-level tax on undistributed income or gains, we are required, under Subchapter M of the Code, to annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 90% of our investment company taxable income, determined without regard to any deduction for dividends paid.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year an amount at least equal to the Excise Tax Avoidance Requirement. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, in the manner described above, we have retained and may continue to retain such net capital gains or investment company taxable income, contingent on our ability to be subject to tax as a RIC, in order to provide us with additional liquidity.

During the three months ended December 31, 2016 and 2015, we declared distributions of \$0.28 per share for each period for total distributions of \$19.9 million and \$20.1 million, respectively. During the fiscal years ended September 30, 2016, 2015 and 2014, we declared distributions of \$1.12 per share each year for total distributions of \$79.8 million, \$83.3 million and \$76.9 million, respectively. We monitor available net investment income to determine if a return of capital for taxation purposes may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, common stockholders will be notified of the portion of those distributions deemed to be a return of capital. Tax characteristics of all distributions will be reported to stockholders subject to information reporting on Form 1099-DIV after the end of the calendar year and in our periodic reports filed with the SEC.

We intend to continue to make quarterly distributions to our stockholders. Our quarterly distributions, if any, are determined by the board of directors.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage ratio for borrowings applicable to us as a BDC under the 1940 Act and/or due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our ability to be subject to tax as a RIC. We cannot assure stockholders that they will receive any distributions at a particular level.

### **Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of December 31, 2016, our debt portfolio consisted of 81% variable-rate investments (including 74% with a floor) and 19% fixed-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates since it has no floor.





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Assuming that the most recent Consolidated Statements of Assets and Liabilities was to remain constant, and no actions were taken to alter the interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates.

Change In Interest Rates	Change In Interest	Change In
	Income, Net Of Interest	Interest
	Expense (in	Income, Net Of Interest
	thousands)	Expense Per Share
Up 1%	\$ 3,999	\$ 0.06
Up 2%	\$ 12,093	\$ 0.17
Up 3%	\$ 20,187	\$ 0.28
Up 4%	\$ 28,281	\$ 0.40

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the Consolidated Statements of Assets and Liabilities and other business developments that could affect net increase in net assets resulting from operations, or net investment income. Accordingly, no assurances can be given that actual results would not differ materially from those shown above.

Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds as well as our level of leverage. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income or net assets.

We may hedge against interest rate and foreign currency fluctuations by using standard hedging instruments such as futures, options and forward contracts or our Credit Facility subject to the requirements of the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates and foreign currencies, they may also limit our ability to participate in benefits of lower interest rates or higher exchange rates with respect to our portfolio of investments with fixed interest rates. During the periods covered by this prospectus, we did not engage in interest rate hedging activities.

**Table of Contents****SENIOR SECURITIES**

Information about our senior securities is shown in the following table as of December 31, 2016 (unaudited) and September 30, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009 and 2008 is from our Consolidated Financial Statements, which has been audited by an independent registered public accounting firm for those periods. This information about our senior securities should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

<b>Class and Year</b>	<b>Total Amount Outstanding<sup>(1)</sup></b>	<b>Asset Coverage per Unit<sup>(2),(3)</sup></b>	<b>Average Market Value Per Unit<sup>(4)</sup></b>
<b>Credit Facility, 2019 Notes and 2025 Notes</b>			
Fiscal 2017 (As of December 31, 2016; unaudited)	\$ 469,369	\$ 2,412	\$ 25.09
Fiscal 2016	\$ 371,590	\$ 2,756	\$ 24.68
Fiscal 2015	\$ 458,114	\$ 2,569	\$ 25.13
Fiscal 2014	\$ 376,476	\$ 3,198	\$ 24.51
Fiscal 2013	\$ 216,750	\$ 4,261	\$ 24.79
Fiscal 2012	\$ 145,000	\$ 5,636	N/A
Fiscal 2011	\$ 240,900	\$ 2,937	N/A
Fiscal 2010 <sup>(5)</sup>	\$ 247,600	\$ 2,655	N/A
Fiscal 2009	\$ 225,100	\$ 2,713	N/A
Fiscal 2008	\$ 202,000	\$ 2,043	N/A

(1) Total cost of each class of senior securities outstanding at the end of the period presented in thousands (000s).

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.

(3) These amounts exclude SBIC LP's SBA debentures from our total amount outstanding and asset coverage per unit computation pursuant to an exemptive relief letter provided by the SEC in June 2011.

(4) The average market value per unit is derived based on the monthly average closing price of the 2025 Notes trading on NYSE under the symbol PNTA since issuance, which were issued in increments of \$25 per unit.

(5) This amount includes SBIC LP's SBA debentures in the total amount outstanding and our asset coverage per unit computation.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

For the three months ended December 31, 2016 and for the years ended September 30, 2016, 2015, 2014, 2013 and 2012, the ratios of earnings to fixed charges were as follows:

Dollars in thousands	For the Three Months Ended December 31,		For the Years Ended September 30,			
	2016	2016	2015	2014	2013	2012
<b>Earnings<sup>(1)</sup></b>						
Net investment income (after taxes)	\$ 15,041	\$ 70,615	\$ 82,258	\$ 71,329	\$ 66,998	\$ 57,069
Add: Net realized gain (losses) gains on investments	(22,195)	(80,531)	30,111	30,235	17,687	(12,798)
Add: Net change in unrealized appreciation (depreciation)	31,203	28,653	(122,615)	9,420	7,092	19,082
<b>Total Earnings</b>	<b>\$ 24,049</b>	<b>\$ 18,737</b>	<b>\$ (10,246)</b>	<b>\$ 110,983</b>	<b>\$ 91,778</b>	<b>\$ 63,353</b>
<b>Fixed Charges</b>						
Interest and expenses on debt	\$ 6,736	\$ 27,601	\$ 26,355	\$ 20,261	\$ 15,384	\$ 11,681
<b>Ratio of Total Earnings to Fixed Charges</b>	3.6	0.7	(0.4)	5.5	6.0	5.4
<b>Ratio of Net Investment Income to Fixed Charges</b>	2.2	2.6	3.1	3.5	4.4	4.9

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the NASDAQ Global Select Market under the symbol PNNT. The following table lists the high and low closing sale prices for our common stock, the closing sale prices as a premium or (discount) to our NAV and quarterly distributions per share since October 1, 2014. On April 20, 2017, the last reported closing price of our common stock was \$7.81 per share.

Period	NAV <sup>(1)</sup>	Closing Sales Price		Premium (Discount)	Premium (Discount)	Distributions Declared
		High	Low	of High Sales Price to NAV <sup>(2)</sup>	of Low Sales Price to NAV <sup>(2)</sup>	
<b>Fiscal Year Ending September 30, 2017</b>						
Second quarter (As of April 20, 2017)	\$ N/A	\$ 8.58	\$ 7.71	N/A%	N/A%	\$ 0.18
First quarter	9.11	8.04	7.08	(12)	(22)	0.28
<b>Fiscal Year Ended September 30, 2016</b>						
Fourth quarter	9.05	8.16	6.88	(10)	(24)	0.28
Third quarter	8.94	6.83	6.10	(24)	(32)	0.28
Second quarter	8.83	6.43	4.95	(27)	(44)	0.28
First quarter	9.02	7.31	6.00	(19)	(33)	0.28
<b>Fiscal Year Ended September 30, 2015</b>						
Fourth quarter	9.82	8.69	6.37	(12)	(35)	0.28
Third quarter	10.04	9.70	8.78	(3)	(13)	0.28
Second quarter	10.25	9.77	8.17	(5)	(20)	0.28
First quarter	10.43	11.09	9.01	6	(14)	0.28

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sales price less NAV per share, divided by the quarter-end NAV per share.

Shares of BDCs may trade at a market price both above and below the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares closed on the NASDAQ Global Select Market at \$7.66 and \$7.52 as of December 31, 2016 and September 30, 2016, respectively. Our NAV per share was \$9.11 and \$9.05 as of December 31, 2016 and September 30, 2016, respectively. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below our NAV in the future. As of March 31, 2017, we had 12 stockholders of record.

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**SALES OF COMMON STOCK BELOW NET ASSET VALUE**

Our stockholders have in the past and may again approve our ability to sell shares of our common stock below our then current NAV per share in one or more public offerings of our common stock. In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our board of directors, a majority of our directors who have no financial interest in the sale and a majority of our independent directors considered a variety of factors, including:

The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;

The relationship of recent market prices of our common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;

Whether the estimated offering price would closely approximate the market value of our shares, less distributing commissions or discounts, and would not be below current market price;

The potential market impact of being able to raise capital in the current financial market;

The nature of any new investors anticipated to acquire shares in the offering;

The anticipated rate of return on and quality, type and availability of investments;

The leverage available to us and our SBIC Funds, both before and after the offering and other borrowing terms; and

The potential investment opportunities available relative to the potential dilutive effect of additional capital at the time of the offering. Our board of directors will also consider the fact that a sale of shares of common stock at a discount will benefit our Investment Adviser, as the Investment Adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of PennantPark Investment or from the offering of common stock at premium to NAV per share.

Sales by us of our common stock at a discount from NAV pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

We will not seek to sell shares under a prospectus supplement to the registration statement, or a post-effective amendment to the registration statement, of which this prospectus forms a part (the "current registration statement") if the cumulative dilution to our NAV per share arising from offerings from the effective date of the current registration statement through and including any follow-on offering would exceed 15% based on the anticipated pricing of such follow-on offering. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the anticipated percentage dilution from each subsequent offering. For example, if our most recently determined NAV per share at the time of the first offering is \$10.00, and we have 100 million shares outstanding, the sale of an additional 25 million shares at net proceeds to us of \$5.00 per share (a 50% discount) would produce dilution of 10.0%. If we subsequently determined that our NAV per share increased to \$11.00 on the then outstanding 125 million shares and contemplated an additional offering, we could, for example, propose to sell approximately 31.25 million additional shares

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at a price that would be expected to yield net proceeds to us of \$8.25 per share, resulting in incremental dilution of 5.0%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

The following three headings and accompanying tables explain and provide hypothetical examples assuming proceeds are temporarily invested in cash equivalents on the impact of an offering at a price less than NAV per share on three different sets of investors:

existing stockholders who do not purchase any shares in the offering;

existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and

new investors who become stockholders by purchasing shares in the offering.

**Table of Contents****Impact on Existing Stockholders who do not Participate in the Offering**

Our existing stockholders who do not participate, or who are not given the opportunity to participate, in an offering below NAV per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after any underwriting discounts and commissions) face the greatest potential risks. All stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares they hold. Stockholders who do not participate in the offering will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than stockholders who do participate in the offering. All stockholders may also experience a decline in the market price of their shares, which often reflects, to some degree, announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

The following examples illustrate the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical common stock offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15.0 million in total assets and \$5.0 million in total liabilities. The current NAV and NAV per share are thus \$10.0 million and \$10.00, respectively. The table below illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after any underwriting discounts and commissions (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after any underwriting discounts and commissions (a 10% discount from NAV); and (3) an offering of 250,000 shares (25% of the outstanding shares) at \$7.50 per share after any underwriting discounts and commissions (a 25% discount from NAV).

	Example 1 5% Offering at 5% Discount			Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
<b>Offering Price</b>							
Price per share to public		\$ 10.00		\$ 9.47		\$ 7.89	
Net offering proceeds per share to issuer		\$ 9.50		\$ 9.00		\$ 7.50	
<b>Decrease to NAV</b>							
Total shares outstanding	1,000,000	1,050,000	5.00 %	1,100,000	10.00 %	1,250,000	25.00 %
NAV per share	\$ 10.00	\$ 9.98	(0.20)%	\$ 9.91	(0.90)%	\$ 9.50	(5.00)%
<b>Dilution to Stockholder A</b>							
Shares held by stockholder A	10,000	10,000		10,000		10,000	
Percentage held by stockholder A	1.00%	0.95%	(5.00)%	0.91%	(9.00)%	0.80%	(20.00)%



**Total Asset Values**

Total NAV held by stockholder A

	\$ 100,000	\$ 99,800	(0.20)%	\$ 99,100	(0.90)%	\$ 95,000	(5.00)%
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Total investment by stockholder A (assumed to be \$10.00 per share)

	\$ 100,000	\$ 100,000		\$ 100,000		\$ 100,000
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	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount	
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Total dilution to stockholder A (total NAV less total investment)		\$ (200)		\$ (900)		\$ (5,000)	
<b>Per Share Amounts</b>							
NAV per share held by stockholder A		\$ 9.98		\$ 9.91		\$ 9.50	
Investment per share held by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 10.00	\$ 10.00		\$ 10.00		\$ 10.00	
Dilution per share held by stockholder A (NAV per share less investment per share)		\$ (0.02)		\$ (0.09)		\$ (0.50)	
Percentage dilution to stockholder A (dilution per share divided by investment per share)			(0.20)%		(0.90)%		(5.00)%

**Impact on Existing Stockholders who Participate in the Offering**

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after any underwriting discounts and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the offering below NAV as their interest in our shares immediately prior to the offering. The level of NAV dilution on an aggregate basis will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional offerings below NAV in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15.0 million in total assets and \$5.0 million in total liabilities. The current NAV and NAV per share are thus \$10.0 million and \$10.00, respectively. The table below illustrates the (dilutive) and accretive effect in the hypothetical offering of 25% of the shares outstanding at a 25% discount to NAV from the prior chart for stockholder A that acquires shares equal to (1) 50% of their proportionate share of the offering (i.e., 1,250 shares which is 0.50% of the offering of 250,000 shares rather than their 1.00% proportionate share) and (2) 150% of their proportionate share of the offering (i.e., 3,750 shares which is 1.50% of the offering of 250,000 shares rather than their 1.00% proportionate share).

50% Participation

150% Participation

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	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change
<b><i>Offering Price</i></b>					
Price per share to public					
		\$ 7.89		\$ 7.89	
Net proceeds per share to issuer					
		\$ 7.50		\$ 7.50	

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	Prior to Sale Below NAV	50% Participation Following Sale	% Change	150% Participation Following Sale	% Change
<b><i>Increases in Shares and Decrease to NAV</i></b>					
Total shares outstanding	1,000,000	1,250,000	25.00 %	1,250,000	25.00 %
NAV per share	\$ 10.00	\$ 9.50	(5.00)%	\$ 9.50	(5.00)%
<b><i>(Dilution)/Accretion to Participating Stockholder A</i></b>					
Shares held by stockholder A	10,000	11,250	12.50 %	13,750	37.50 %
Percentage held by stockholder A	1.00%	0.90%	(10.00)%	1.10%	10.00 %
<b>Total Asset Values</b>					
Total NAV held by stockholder A	\$ 100,000	\$ 106,875	6.88 %	\$ 130,625	30.63 %
Total investment by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 100,000	\$ 109,863	9.86 %	\$ 129,588	29.59 %
Total (dilution)/accretion to stockholder A (total NAV less total investment)		(2,988)		\$ 1,037	
<b>Per Share Amounts</b>					
NAV per share held by stockholder A		\$ 9.50		\$ 9.50	
Investment per share held by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 10.00	\$ 9.77	(2.30)%	\$ 9.42	(5.80)%
(Dilution)/accretion per share held by stockholder A (NAV per share less investment per share)		\$ (0.27)		\$ 0.08	
Percentage (dilution)/accretion to stockholder A (dilution)/accretion per share divided by investment per share			(2.76)%		0.85%
<b><i>Impact on New Investors</i></b>					

The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder in three different hypothetical common stock offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per share is greater than the resulting NAV per share due to any underwriting discounts and commissions paid by us will experience an immediate decrease, albeit small, in the NAV of their shares and their NAV per share compared to the price they pay for their shares. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share due to any underwriting discounts and commissions paid by us being significantly less than the discount per share, will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their shares. All these investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional offerings below NAV in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. Their decrease could be more pronounced as the size of the offering and level of discounts increases.

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The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder who purchases the same percentage (1.00%) of the shares in the three different hypothetical offerings of common stock of different sizes and levels of discount from NAV per share. The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15.0 million in total assets and \$5.0 million in total liabilities. The current NAV and NAV per share are thus \$10.0 million and \$10.00, respectively. The table below illustrates the dilutive and accretive effects on a stockholder A at (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after any underwriting discounts and commissions (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after any underwriting discounts and commissions (a 10% discount from NAV); and (3) an offering of 250,000 shares (25% of the outstanding shares) at \$7.50 per share after any underwriting discounts and commissions (a 25% discount from NAV).

	Example 1 5% Offering at 5% Discount			Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
<b>Offering Price</b>							
Price per share to public							
		\$ 10.00		\$ 9.47		\$ 7.89	
<b>Net offering proceeds per share to issuer</b>							
		\$ 9.50		\$ 9.00		\$ 7.50	
<b>Decrease to NAV</b>							
<b>Total shares outstanding</b>							
		1,050,000	5.00 %	1,100,000	10.00 %	1,250,000	25.00 %
<b>NAV per share</b>							
		\$ 9.98	(0.20)%	\$ 9.91	(0.90)%	\$ 9.50	(5.00)%
<b>Dilution to Stockholder A</b>							
<b>Shares held by stockholder A</b>							
		500		1,000		2,500	
<b>Percentage held by stockholder A</b>							
		0.05%		0.90%		0.20%	
<b>Total Asset Values</b>							
<b>Total NAV held by stockholder A</b>							
		\$ 4,990		\$ 9,910		\$ 23,750	

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Total investment by stockholder A

	\$ 5,000	\$ 9,470	\$ 19,725
Total (dilution)/accretion to stockholder A (total NAV less total investment)	\$ (10)	\$ 440	\$ 4,025

**Per Share Amounts**

NAV per share held by stockholder A

	\$ 9.98	\$ 9.91	\$ 9.50
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Investment per share held by stockholder A

	\$ 10.00	\$ 9.47	\$ 7.89
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(Dilution)/accretion per share held by  
stockholder A (NAV per share less investment  
per share)

	\$ (0.02)	\$ 0.44	\$ 1.61
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Percentage (dilution)/accretion to stockholder A  
(dilution)/ accretion per share divided by  
investment per share

	(0.20)%	4.65 %	20.41%
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We intend to continue making quarterly distributions to our stockholders. The timing and amount of our quarterly distributions, if any, is determined by our board of directors. Any distributions to our stockholders are declared out of assets legally available for distribution. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders. The following table reflects the cash distributions per share that we have declared on our common stock since October 1, 2014:

<b>Record Dates</b>	<b>Payment Dates</b>	<b>Distributions Declared</b>
<b>Fiscal Year Ending September 30, 2017</b>		
March 22, 2017	April 3, 2017	\$ 0.18
December 22, 2016	January 3, 2017	0.28
<b>Total</b>		\$ 0.46
<b>Fiscal Year Ended September 30, 2016</b>		
September 21, 2016	October 3, 2016	\$ 0.28
June 20, 2016	July 1, 2016	0.28
March 18, 2016	April 1, 2016	0.28
December 24, 2015	January 4, 2016	0.28
<b>Total</b>		\$ 1.12
<b>Fiscal Year Ended September 30, 2015</b>		
September 21, 2015	October 1, 2015	\$ 0.28
June 15, 2015	July 1, 2015	0.28
March 20, 2015	April 1, 2015	0.28
December 19, 2014	January 2, 2015	0.28
<b>Total</b>		\$ 1.12

In January 2017, a Form 1099-DIV was sent to stockholders subject to information reporting that will state the amount and composition of distributions and provide information with respect to appropriate tax treatment of our distributions.

The tax characteristics of distributions declared, in accordance with Section 19(a) of the 1940 Act, during the fiscal years ended September 30, 2016 and 2015 from ordinary income totaled \$58.1 million and \$83.3 million, or \$0.81 and \$1.11 per share, respectively, based on weighted average shares outstanding for the respective periods. Additionally, for the fiscal year ended September 30, 2016, we had long-term capital gain distributions of \$21.7 million, or \$0.30 per share, based on weighted average shares outstanding.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend or other distribution, then stockholders cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage ratio for borrowings when applicable to us as a BDC under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain minimum percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our tax status. We cannot assure stockholders that they will receive any distributions or distributions at a particular level.

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*Sale of Unregistered Securities*

We did not engage in any sales of unregistered securities during the three months ended December 31, 2016 and the fiscal years ended September 30, 2016, 2015 and 2014, respectively.



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**BUSINESS**

**PennantPark Investment Corporation**

PennantPark Investment Corporation is a BDC whose objectives are to generate both current income and capital appreciation while seeking to preserve capital through debt and equity investments primarily made to U.S. middle-market companies in the form of senior secured debt, mezzanine debt and equity investments.

We believe middle-market companies offer attractive risk-reward to investors due to the limited amount of capital available for such companies. We seek to create a diversified portfolio that includes senior secured debt, mezzanine debt and equity investments by investing approximately \$10 million to \$50 million of capital, on average, in the securities of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We use the term middle-market to refer to companies with annual revenues between \$50 million and \$1 billion. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the S&P's system) from the national rating agencies. Securities rated below investment grade are often referred to as leveraged loans or high yield securities or junk bonds and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. Our debt investments may generally range in maturity from three to ten years and, are made to U.S. and to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographic regions.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use, our Credit Facility, SBA debentures, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

**Organization and Structure of PennantPark Investment Corporation**

PennantPark Investment Corporation, a Maryland corporation organized in January 2007, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we have elected to be treated, and intend to qualify annually, as a RIC under the Code.

Our wholly owned subsidiaries, SBIC LP and SBIC II, were organized as Delaware limited partnerships in May 2010 and July 2012, respectively. SBIC LP and SBIC II received licenses from the SBA to operate as SBICs, under Section 301(c) of the 1958 Act, in 2010 and 2013, respectively. Our SBIC Funds' objectives are to generate both current income and capital appreciation through debt and equity investments generally by investing with us in SBA-eligible businesses that meet the investment selection criteria used by PennantPark Investment.

**Our Investment Adviser and Administrator**

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing what we believe is an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 25 years of experience in the senior lending mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser's inception in 2007, it has raised approximately \$3.0 billion in debt and equity capital and has invested \$6.0 billion in 430 companies with over 170 different financial sponsors through its managed funds.

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Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC and the SBA. The Administrator assists in the determination and publication of our NAV, oversees the preparation and filing of our tax returns, and monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator offers, on our behalf, managerial assistance to those portfolio companies to which we are required to offer such assistance. See Risk Factors Risks Relating to our Business and Structure There are significant potential conflicts of interest which could impact our investment returns for more information.

### **Market Opportunity**

We believe that the limited amount of capital available to middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for us.

**We believe middle-market companies have faced difficulty in raising debt through the capital markets.** Many middle-market companies look to raise funds by issuing high-yield bonds. We believe this approach to financing becomes difficult at times when institutional investors seek to invest in larger, more liquid offerings. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield debt securities from time to time.

**We believe middle-market companies have faced difficulty raising debt in private markets.** From time to time, banks, finance companies, hedge funds and CLO funds have withdrawn, and may again withdraw, capital from the middle-market, resulting in opportunities for alternative funding sources.

**We believe that credit market dislocation for middle-market companies improves the risk-reward on our investments.** From time to time, market participants have reduced lending to middle-market and non-investment grade borrowers. As a result, there is less competition in our market, more conservative capital structures, higher yields and stronger covenants.

**We believe there is a large pool of uninvested private equity capital likely to seek to combine their capital with sources of debt capital to complete private investments.** We expect that private equity firms will continue to be active investors in middle-market companies. These private equity funds generally seek to leverage their investments by combining their capital with senior secured debt and/or mezzanine debt provided by other sources, and we believe that our capital is well-positioned to partner with such equity investors.

**We believe there is a substantial supply of opportunities resulting from maturing loans that seek refinancing.** A high volume of financings will come due in the next few years. Additionally, we believe that demand for debt financing from middle-market companies will remain strong because these companies will continue to require credit to refinance existing debt, to support growth initiatives and to finance acquisitions. We believe the combination of strong demand by middle-market companies and from time to time the reduced supply of credit described above should increase lending opportunities for us. We believe this supply of opportunities coupled with lack of demand offers attractive risk-reward to investors.

### ***Competitive Advantages***

We believe that we have the following competitive advantages over other capital providers in middle-market companies:

#### ***a) Experienced Management Team***

The senior investment professionals of our Investment Adviser have worked together for many years and average over 25 years of experience in senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses. These senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this extensive experience and history has resulted in a strong reputation across the capital markets.

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Lending to middle-market companies requires in-depth diligence, credit expertise, restructuring experience and active portfolio management. For example, lending to middle-market companies in the United States is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of the information available with respect to such companies. We are able to provide value-added customized financial solutions to middle-market companies as a result of specialized due diligence, underwriting capabilities and more extensive ongoing monitoring required as lender.

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### ***b) Disciplined Investment Approach with Strong Value Orientation***

We employ a disciplined approach in selecting investments that meet the long-standing, consistent value-oriented investment selection criteria employed by our Investment Adviser. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We believe this approach continues to enable us to build an attractive investment portfolio that meets our return and value criteria over the long-term.

We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through our Investment Adviser, conduct a rigorous due diligence process that draws from our Investment Adviser's experience, industry expertise and network of contacts. Among other things, our due diligence is designed to ensure that each prospective portfolio company will be able to meet its debt service obligations. See "Investment Objectives and Policies" "Investment Selection Criteria" for more information.

In addition to engaging in extensive due diligence, our Investment Adviser seeks to reduce risk by focusing on businesses with:

strong competitive positions;

positive cash flow that is steady and stable;

experienced management teams with strong track records;

potential for growth and viable exit strategies; and

capital structures offering appropriate risk-adjusted terms and covenants.

### ***c) Ability to Source and Evaluate Transactions through our Investment Adviser's Proactive, Research Capability and Established Network***

The management team of the Investment Adviser has long-term relationships with financial sponsors, management consultants and management teams that we believe enable us to evaluate investment opportunities effectively in numerous industries, as well as provide us access to substantial information concerning those industries. We identify potential investments both through active origination and through dialogue with numerous financial sponsors, management teams, members of the financial community and corporate partners with whom the professionals of our Investment Adviser have long-term relationships.

### ***d) Flexible Transaction Structuring***

We are flexible in structuring investments and tailor investments to meet the needs of a portfolio company while also generating attractive risk-reward. We can invest in all parts of a capital structure and our Investment Adviser has extensive experience in a wide variety of securities for leveraged companies throughout economic and market cycles.

Our Investment Adviser seeks to minimize the risk of capital loss without foregoing potential for capital appreciation. In making investment decisions, we seek to invest in companies that we believe can generate consistent positive risk-adjusted returns.

We believe that the in-depth experience of our Investment Adviser will enable us to invest throughout various stages of the economic and market cycles and to provide us with ongoing market insights in addition to a significant investment opportunity.



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### ***Competition***

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, CLO funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities in middle-market companies can be intense. However, we believe that from time to time there has been a reduction in the amount of debt capital available to middle-market companies, which we believe has resulted in a less competitive environment for making new investments.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) We operate in a highly competitive market for investment opportunities for more information.

### ***Leverage***

We maintain a multi-currency \$545.0 million Credit Facility which matures in June 2019, and is secured by substantially all of our investment portfolio assets (excluding the assets of our SBIC Funds), under which we had \$148.1 million and \$50.3 million, respectively, outstanding borrowings with a weighted average interest rate of 2.63% and 2.76% as of December 31, 2016 and September 30, 2016, respectively, excluding the undrawn commitment fees of 0.375%. Pricing of borrowings under our current Credit Facility is set at 225 basis points over LIBOR. As of December 31, 2016 and September 30, 2016, we had \$396.9 million and \$494.7 million, respectively, of unused borrowing capacity under our Credit Facility subject to regulatory restrictions. We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. Our use of leverage, as calculated under the asset coverage requirements of the 1940 Act, may generally range between 60% and 80% of our net assets.

As of December 31, 2016 and September 30, 2016, our SBIC Funds had \$225 million in debt commitments, of which \$197.5 million was drawn, with a weighted average interest rate of 3.44% for each period, exclusive of 3.43% of upfront fees. The SBA debentures mature between September 2020 and September 2026. SBA debentures offer competitive terms such as being non-recourse to us, a 10-year maturity, semi-annual interest payments, not requiring principal payments prior to maturity and may be prepaid at any time without penalty. The SBA debentures are secured by all the investment portfolio assets of our SBIC Funds and have a priority claim over such assets relative to all other creditors. See [Regulation](#) for more information.

As of December 31, 2016 and September 30, 2016, we had \$250.0 million in aggregate principal amount of 2019 Notes outstanding. Interest on the 2019 Notes accrues at a rate of 4.50% per year and is paid semi-annually. The 2019 Notes mature on October 1, 2019. The 2019 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2019 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility.

As of December 31, 2016 and September 30, 2016, we had \$71.3 million in aggregate principal amount of 2025 Notes outstanding. Interest on the 2025 Notes accrues at a rate of 6.25% per year and is paid quarterly. The 2025 Notes mature on February 1, 2025. The 2025 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2025 Notes are structurally subordinated to our SBA debentures and the assets pledged or secured under our Credit Facility.

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**INVESTMENT OBJECTIVES AND POLICIES**

**Investment Policy Overview**

We seek to create a diversified portfolio that includes senior secured debt, mezzanine debt and, to a lesser extent, equity by targeting an investment size of \$10 million to \$50 million in securities, on average, of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the S&P's system) from the national rating agencies. Securities rated below investment grade are often referred to as leveraged loans or high yield securities or junk bonds and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. In addition, we expect our debt investments to range in maturity from three to ten years.

Over time, we expect that our portfolio will continue to consist primarily of senior secured debt, mezzanine debt and, to a lesser extent, equity investments in qualifying assets such as private, or thinly traded or small market-capitalization, U.S. middle market public companies. In addition, we may invest up to 30% of our portfolio in non-qualifying assets. These non-qualifying assets may include investments in public companies whose securities are not thinly traded or have a market capitalization of greater than \$250 million, securities of middle-market companies located outside of the United States and investment companies as defined in the 1940 Act. We may acquire investments in the secondary market. See Regulation Qualifying Assets and Investment Selection Criteria for more information.

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, under the 1940 Act we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our securities. Nevertheless, the effects of changes to our operating policies and strategies may adversely affect our business, our ability to make distributions and the value of our securities.

**Senior Secured Debt**

Structurally, senior secured debt (which we define to include first lien debt) ranks senior in priority of payment to mezzanine debt and equity, and benefits from a senior security interest in the assets of the borrower. As such, other creditors rank junior to our investments in these securities in the event of insolvency. Due to its lower risk profile and often more restrictive covenants as compared to mezzanine debt, senior secured debt generally earns a lower return than mezzanine debt. In some cases senior secured lenders receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

**Mezzanine Debt**

Structurally, mezzanine debt (which we define to include second lien secured debt and subordinated debt) usually ranks subordinate in priority of payment to senior secured debt. Our second lien secured debt is subordinated debt that benefits from a security interest in the borrower. As such, other creditors may rank senior to us in the event of insolvency. Mezzanine debt ranks senior to common and preferred equity in borrowers capital structures. Due to its higher risk profile and often less restrictive covenants as compared to senior secured debt, mezzanine debt generally earns a higher return than senior secured debt. In many cases mezzanine investors receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

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### **Investment Selection Criteria**

We are committed to a value-oriented philosophy used by the senior investment professionals who manage our portfolio and seek to minimize the risk of capital loss without foregoing potential for capital appreciation.

We have identified several criteria, discussed below, that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions. However, we caution that not all of these criteria will be met by each prospective portfolio company in which we choose to invest. Generally, we seek to use our experience and access to market information to identify investment opportunities and to structure investments efficiently and effectively.

#### ***a) Leading and defensible competitive market positions***

The Investment Adviser invests in portfolio companies that it believes have developed strong positions within their markets and exhibit the potential to maintain sufficient cash flows and profitability to service their obligations in a range of economic environments. The Investment Adviser also seeks to invest in portfolio companies that it believes possess competitive advantages, for example, in scale, scope, customer loyalty, product pricing or product quality as compared to their competitors to protect their market position.

#### ***b) Investing in stable borrowers with positive cash flow***

Our investment philosophy places a premium on fundamental analysis and has a distinct value-orientation. The Investment Adviser invests in portfolio companies it believes to be stable and well established, with strong cash flows and profitability. The Investment Adviser believes these attributes indicate portfolio companies that may be well-positioned to maintain consistent cash flow to service and repay their liabilities and maintain growth in their businesses or their relative market share. The Investment Adviser currently does not expect to invest significantly in start-up companies, companies in turnaround situations or companies with speculative business plans, although we are permitted to do so.

#### ***c) Proven management teams***

The Investment Adviser focuses on investments in which the portfolio company has an experienced management team with an established track record of success. The Investment Adviser typically requires that portfolio companies have in place proper incentives to align management's goals with our goals, including having equity interests.

#### ***d) Financial sponsorship***

The Investment Adviser may seek to cause us to participate in transactions sponsored by what it believes to be trusted financial sponsors. The Investment Adviser believes that a financial sponsor's willingness to invest significant equity capital in a portfolio company is an implicit endorsement of the quality of that portfolio company. Further, financial sponsors of portfolio companies with significant investments at risk may have the ability, and a strong incentive, to contribute additional capital in difficult economic times should financial or operational issues arise so as to maintain their ownership position.

#### ***e) Investments in different borrowers, industries and geographies***

The Investment Adviser seeks to invest our assets broadly among portfolio companies, across industries and geographic regions. The Investment Adviser believes that this approach may reduce the risk that a downturn in any one portfolio company, industry or geographic region will have a disproportionate impact on the value of our portfolio, although we are permitted to be non-diversified under the 1940 Act.

#### ***f) Viable exit strategy***



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The Investment Adviser seeks to invest in portfolio companies that it believes will provide a steady stream of cash flow to repay our loans while also reinvesting in their respective businesses. The Investment Adviser expects that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, our investments in portfolio companies to be a key means by which we will exit from our investments over time. In addition, the Investment Adviser also seeks to invest in portfolio companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay our investments through an initial public offering of common stock, refinancing or other capital markets transaction.

### *Due Diligence*

We believe it is critical to conduct extensive due diligence in evaluating new investment targets. Our Investment Adviser conducts a rigorous due diligence process that is applied to prospective portfolio companies and draws from our Investment Adviser's experience, industry expertise and network of contacts. In conducting due diligence, our Investment Adviser uses information provided by companies, financial sponsors and publicly available information as well as information from relationships with former and current management teams, consultants, competitors and investment bankers.

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Our due diligence may include:

review of historical and prospective financial information;

research relating to the portfolio company's management, industry, markets, products and services and competitors;

interviews with management, employees, customers and vendors of the potential portfolio company;

on-site visits;

review of loan documents; and

background checks.

Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent auditors prior to the closing of the investment, as well as other outside advisers, as appropriate.

Upon the completion of due diligence on a portfolio company, the team leading the investment presents the investment opportunity to our Investment Adviser's investment committee. This committee determines whether to pursue the potential investment. All new investments are required to be reviewed by the investment committee of our Investment Adviser. The members of the investment committee receive no compensation from us. Rather, they are employees of and receive compensation from our Investment Adviser.

### ***Investment Structure***

Once we determine that a prospective portfolio company is suitable for investment, we work with the management of that portfolio company and its other capital providers, including senior, junior and equity capital providers, to structure an investment. We negotiate with these parties to agree on how our investment is structured relative to the other capital in the portfolio company's capital structure.

We expect our senior secured debt to have terms of three to ten years. We generally obtain security interests in the assets of our portfolio companies that will serve as collateral in support of the repayment of these loans. This collateral may take the form of first priority liens on the assets of a portfolio company.

Typically, our mezzanine debt investments have maturities of three to ten years. Mezzanine debt may take the form of a second priority lien on the assets of a portfolio company and have interest-only payments in the early years with cash or PIK payments with amortization of principal deferred to the later years. In some cases, we may invest in debt securities that, by their terms, convert into equity or additional debt securities or defer payments of interest for the first few years after our investment. Also, in some cases our mezzanine debt may be collateralized by a subordinated lien on some or all of the assets of the borrower.

We seek to tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we seek to limit the downside potential of our investments by:

requiring a total return on our investments (including both interest in the form of a floor and potential equity appreciation) that compensates us for credit risk;

incorporating put rights and call protection into the investment structure; and

negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with our focus of preserving capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

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Our investments may include equity features, such as direct investments in the equity securities of borrowers or warrants or options to buy a minority interest in a portfolio company. Any warrants we may receive with our debt securities generally require only a nominal cost to exercise, so as a portfolio company appreciates in value, we may achieve additional investment return from these equity investments. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the portfolio company, upon the occurrence of specified events. In many cases, we may also obtain registration rights in connection with these equity investments, which may include demand and piggyback registration rights.

We expect to hold most of our investments to maturity or repayment, but we may exit certain investments earlier when a liquidity event, such as the sale or refinancing of a portfolio company, takes place. We also may turn over investments to better position the portfolio in light of market conditions.

## **Ongoing Relationships with Portfolio Companies**

### ***Monitoring***

The Investment Adviser monitors our portfolio companies on an ongoing basis. The Investment Adviser also monitors the financial trends of each portfolio company to determine if it is meeting its respective business plan and to assess the appropriate course of action for each portfolio company.

The Investment Adviser has several methods of evaluating and monitoring the performance and fair value of our investments, which may include the following:

assessment of success in adhering to portfolio company's business plan and compliance with covenants;

periodic or regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;

comparisons to other portfolio companies in the industry, if any;

attendance at and participation in board meetings or presentations by portfolio companies; and

review of periodic financial statements and financial projections for portfolio companies.

The Investment Adviser monitors credit risk of each portfolio company regularly with a goal toward identifying early, and when able and appropriate, exiting investments with potential credit problems. This monitoring process may include reviewing: (1) a portfolio company's financial resources and operating history; (2) comparing a portfolio company's current operating results with the Investment Adviser's initial thesis for the investment and its expectations for the performance of the investment; (3) a portfolio company's sensitivity to economic conditions; (4) the performance of a portfolio company's management; (5) a portfolio company's debt maturities and capital requirements; (6) a portfolio company's interest and asset coverage; and (7) the relative value of an investment based on a portfolio company's anticipated cash flow.

### ***Managerial assistance***

We offer managerial assistance to our portfolio companies. As a BDC, we are required to make available such managerial assistance within the meaning of Section 55 of the 1940 Act. See Regulation for more information.

### ***Staffing***

We do not currently have any employees. Our Investment Adviser and Administrator have hired and expect to continue to hire professionals with skills applicable to our business plan, including experience in middle-market investing, senior lending, mezzanine lending, leveraged

finance, distressed debt and private equity businesses.

**Table of Contents*****Our Portfolio***

Our principal investment focus is to provide senior secured debt and mezzanine debt to U.S. middle-market companies in a variety of industries. We generally seek to target companies that generate positive cash flows from the broad variety of industries in which our Investment Adviser has direct expertise. The following is an illustrative list of the industries in which the Investment Adviser has invested:

Aerospace and Defense	Energy/Utilities
Auto Sector	Environmental Services
Beverage, Food and Tobacco	Financial Services
Broadcasting and Entertainment	Grocery
Buildings and Real Estate	Healthcare, Education and Childcare
Building Materials	High Tech Industries
Business Services	Home & Office Furnishings, Housewares & Durable Consumer Products
Cable Television	Hotels, Motels, Inns and Gaming
Capital Equipment	Insurance
Cargo Transportation	Leisure, Amusement, Motion Picture, Entertainment
Chemicals, Plastics and Rubber	Logistics
Communications	Manufacturing/Basic Industries
Consumer Products	Media
Consumer Services	Mining, Steel, Iron and Non-Precious Metals
Containers Packaging & Glass	Oil and Gas
Distribution	Other Media
Diversified/Conglomerate Manufacturing	Personal, Food and Miscellaneous Services
Diversified/Conglomerate Services	Printing and Publishing
Diversified Natural Resources, Precious Metals and Minerals	Retail
Education	Wholesale
Electronics	

Listed below are our top ten portfolio companies and industries represented as a percentage of our consolidated portfolio assets (excluding cash equivalents) as of:

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<b>Portfolio Company</b>	<b>December 31, 2016</b>
Parq Holdings Limited Partnership	6%
RAM Energy LLC	5
Pre-Paid Legal Services, Inc.	5
Affinion Group Holdings, Inc.	5
Jacobs Entertainment, Inc.	4
ETX Energy, LLC	3
Novitex Acquisition, LLC	3
Sunborn Oy, Sunborn Saga Oy	3
Cascade Environmental LLC	3
Acre Operating Company, LLC	3
<b>Portfolio Company</b>	<b>September 30, 2016</b>
Parq Holdings Limited Partnership	7%
RAM Energy LLC	6
Affinion Group Holdings, Inc.	5
Pre-Paid Legal Services, Inc.	5
Jacobs Entertainment, Inc.	4
Novitex Acquisition, LLC	4
Cascade Environmental LLC	3
ETX Energy, LLC (f/k/a New Gulf Resources, LLC)	3
Howard Berger Co. LLC	3
LSF9 Atlantis Holdings, LLC	3

<b>Industry</b>	<b>December 31, 2016</b>
Hotels, Motels, Inns and Gaming	17%
Consumer Products	8
Personal, Food and Miscellaneous Services	7
Business Services	6
Aerospace and Defense	6
Energy/Utilities	5
Environmental Services	5
Financial Services	5
Electronics	4
Oil and Gas	4
<b>Industry</b>	<b>September 30, 2016</b>
Hotels, Motels, Inns and Gaming	13%
Consumer Products	9
Personal, Food and Miscellaneous Services	8
Business Services	7
Distribution	6
Energy/Utilities	6
Aerospace and Defense	5
Environmental Services	5
Media	5
Oil and Gas	5

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Our executive officers and directors, as well as the senior investment professionals of the Investment Adviser and Administrator, may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Currently, the executive officers and directors, as well as certain of the current senior investment professionals of the Investment Adviser and Administrator, serve as officers and directors of PennantPark Floating Rate Capital Ltd., a publicly traded BDC, and other managed funds, as applicable. Accordingly, they may have obligations to investors in those entities, the fulfillment of which obligations might not be in the best interest of us or our stockholders. In addition, we note that any affiliated investment vehicle currently existing, or formed in the future, and managed by the Investment Adviser and or its affiliates may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Investment Adviser may face conflicts in allocating investment opportunities among us and such other entities. The Investment Adviser will allocate investment opportunities in a fair and equitable manner consistent with our allocation policy, and we have received exemptive relief with respect to certain co-investment transactions. Where co-investment is unavailable or inappropriate, the Investment Adviser will choose which investment fund should receive the allocation. See Risk Factors Risks Relating to our Business and Structure There are significant potential conflicts of interest which could impact our investment returns for more information.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. We may also co-invest in the future on a concurrent basis with our affiliates, subject to compliance with applicable regulations, our trade allocation procedures and, if applicable, the terms of our exemptive relief.



**Table of Contents****PORTFOLIO COMPANIES**

The following is a listing of each portfolio company or its affiliate, together referred to as portfolio companies, in which we had an investment at December 31, 2016. Percentages shown for class of investment securities held by us represent percentage of voting ownership and not economic ownership. Percentages shown for equity securities, other than warrants or options held, if any, represent the actual percentage of the class of security held before dilution. For additional information see our Consolidated Schedule of Investments in our December 31, 2016 Consolidated Financial Statements included elsewhere in this prospectus.

The portfolio companies are presented in three categories: Companies less than 5% owned which represent portfolio companies where we directly or indirectly own less than 5% of the outstanding voting securities of such portfolio company and where we have no other affiliations with such portfolio company; Companies 5% to 24% owned which represent portfolio companies where we directly or indirectly own 5% or more but less than 25% of the outstanding voting securities of such portfolio company or where we hold one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and Companies 25% or more owned which represent portfolio companies where we directly or indirectly own 25% or more of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the 1940 Act. We make available significant managerial assistance to our portfolio companies. Substantially all of our investments (except those of our SBIC Funds) are pledged as collateral under our Credit Facility. Unless otherwise noted, we held no voting board membership on any of our portfolio companies.

Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest <sup>(1)</sup> , Maturity	Voting Percentage Ownership <sup>(2)</sup>	Fair Value (in thousands)
<b>Companies Less than 5% Owned</b>				
Acre Operating Company 300 State Street New London, CT 06320	Electronics	Second Lien Secured Debt, L+950, 12/12/2023		\$ 38,121
AH Holdings, Inc. 10039 Bissonnet Street, Ste. 250 Houston, TX 77036	Healthcare, Education and Childcare	Preferred Equity Warrants		220
Alegeus Technologies, LLC (Alegeus Technologies Holdings Corp.) 1601 Trapelo Rd. Waltham, MA 02451	Financial Services	Subordinated Debt, L+1,200, 02/15/2019 Preferred Equity Common Equity	0.5%	10,016
AP Gaming I, LLC 6680 Amelia Earhart Court Las Vegas, NV 89119	Hotels, Motels, Inns and Gaming	First Lien Secured Debt, L+825, 12/21/2020		23,118
ASP LCG Holdings, Inc. 21333 Haggerty Road, Ste. 300 Novi, MI 48375	Education	Warrants		1,349
Autumn Games, LLC 54 Thompson St.	Broadcasting and Entertainment	Common Equity	3.2%	

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New York, NY 10012				
Balboa Capital Corporation	Financial Services	Second Lien Secured Debt, 13.75% fixed, 03/04/2022		28,500
2010 Main Street, Suite 1100				
Irvine, CA 92614				
Broder Bros., Co.	Consumer Products	First Lien Secured Debt, Tranche A (L+575, 06/03/2021), Tranche B (L+1,225, 06/03/2021)		18,281
Six Neshaminy Interplex, 6 Floor				
Trevose, PA 19053				
Cardinal Logistics Holdings LLC	Cargo Transport	Second Lien Secured Debt,  , 03/01/2017	0.4%	2,932
(Intermediate Transportation 100, LLC)				
12404 Park Central Dr., Ste. 300				
Common Equity				
Dallas, TX 75251				
Cascade Environmental LLC	Environmental Services	Subordinated Debt,  12.0% fixed, 08/20/2021	3.2%	38,431
17270 Woodinville-Redmond Road				
Woodinville, WA 98072				
Common Equity				

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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment, Interest<sup>(1)</sup>, Maturity</b>	<b>Voting Percentage Ownership<sup>(2)</sup></b>	<b>Fair Value (in thousands)</b>
CI (Galls) Prime Investment Holdings, LLC 1340 Russell Cave Road Lexington, KY 40505	Distribution	Common Equity	3.1%	4,002
Convergent Technologies Holdings, LLC 1651 Wilkening Rd. Schaumburg, IL 60173	Electronics	Preferred Equity  Common Equity	1.3%	5,487
Credit Infonet, Inc. 4540 Honeywell Court Dayton, OH 45424	Personal, Food and Miscellaneous Services	Subordinated Debt,  13.25% fixed (PIK 2.00%),  10/26/2018		10,789
East Valley Tourist Development Authority 84-245 Indio Springs Parkway Indio, CA 92203	Hotels, Motels, Inns and Gaming	First Lien Secured Debt,  L+800, 01/17/2022		15,000
e.l.f. Beauty, Inc. (f/k/a J. A. Cosmetics US, Inc.) 345 California Street, Ste. 3300 San Francisco, CA 94104	Consumer Products	Common Equity	2.1%	26,371
Goldsun Trading Limited <sup>(6)</sup> First Floor, Millennium House Victoria Road, Douglas, Isle of Man	Healthcare, Education and Childcare	Subordinated Debt,  L+1,000 (PIK 6.00%), 02/19/2018		10,506
IM2 4RW Harbortouch Payments, LLC 2202 N. Irving Street Allentown, PA 18109	Financial Services	Second Lien Secured Debt,  L+950, 10/11/2024		22,163
Hollander Sleep Products, LLC 6501 Congress Avenue, Ste. 300 Boca Raton, FL 33487	Consumer Products	First Lien Secured Debt,  L+800, 10/21/2020		4,285
Howard Berger Co. LLC 324 Half Acre Road #A Cranbury, NJ 08512	Distribution	Second Lien Secured Debt,  L+1,000, 09/30/2020		36,713
HW Holdco, LLC One Thomas Circle, NW, Ste. 600 Washington, DC 20005	Other Media	Preferred Equity  Common Equity	2.2%	3,918

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Interior Specialists, Inc. (Faraday Holdings, LLC) 1630 Faraday Avenue Carlsbad, CA 92008	Building Materials	First Lien Secured Debt, L+800, 06/30/2020 Common Equity	0.3%	25,272
Jacobs Entertainment, Inc. 17301 W. Colfax Ave., Ste. 250 Golden, CO 80401	Hotels, Motels, Inns and Gaming	Second Lien Secured Debt, L+1,175, 10/29/2019		50,740
Juniper Landscaping of Florida, LLC (ZS Juniper L.P.) 5880 Staley Road Fort Myers, FL 33905	Personal, Food and Miscellaneous Services	First Lien Secured Debt <sup>(4)</sup> , L+950, 12/22/2021 Common Equity	4.0%	14,910
Kadmon Holdings, Inc. Alexandria Center for Life Sciences 450 East 29 Street, 5 Floor New York, NY 10016	Healthcare, Education and Childcare	Common Equity	2.3%	1,348
K2 Pure Solutions NoCal, L.P. 3515 Massillion Road, Ste. 290 Uniontown, OH 44685	Chemicals, Plastics and Rubber	First Lien Secured Debt, L+900, 02/19/2021		14,251
LaMi Acquisition, LLC 860 Welsh Road Huntingdon Valley, PA 19006	Distribution	Common Equity	1.6%	533
Lariat ecoserv Co-invest Holdings, LLC 1331 17th Street, Ste. 812 Denver, CO 80202	Environmental Services	Common Equity	<sup>(3)</sup>	

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Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest <sup>(1)</sup> , Maturity	Voting Percentage Ownership <sup>(2)</sup>	Fair Value (in thousands)
LSF9 Atlantis Holdings, LLC 775 Prairie Center Drive, Suite 420 Eden Prairie, MN 55344	Retail	First Lien Secured Debt, L+900, 01/15/2021		37,899
MailSouth, Inc. 5901 Highway 52 East Helena, AL 35080	Printing and Publishing	Second Lien Secured Debt, L+1,050, 10/22/2021		26,425
Montreign Operating Company, LLC 204 State Route 17b Monticello, NY 12701	Hotels, Motels, Inns and Gaming	First Lien Secured Debt, L+825, 01/24/2023		23,979
Novitex Acquisition, LLC 1 Elmcroft Road Stamford, CT 06926	Business Services	Second Lien Secured Debt, L+1,100, 07/07/2021		44,625
Parq Holdings Limited Partnership <sup>(6)</sup> c/o Paragon Gaming, Inc. 6650 Via Austi Parkway, Suite 150 Las Vegas, NV 89119	Hotels, Motels, Inns and Gaming	Second Lien Secured Debt, L+1,200, 12/17/2021		77,624
Patriot National, Inc. 401 E. Las Olas Blvd., Ste. 1650 Fort Lauderdale, FL 33301	Insurance	Common Equity	0.4%	469
Pre-Paid Legal Services, Inc. (MidOcean PPL Holdings, Inc.) One Pre-Paid Way Ada, OK 74820	Personal, Food and Miscellaneous Services	Second Lien Secured Debt, L+900, 07/01/2020	2.2%	70,362
Prince Mineral Holdings Corp. 14 East 44th Street New York, NY 10020	Mining, Steel, Iron and Non-Precious Metals	First Lien Secured Debt, 11.50% fixed, 12/16/2019		13,929
Randall-Reilly, LLC 3200 Rice Mine Road NE Tuscaloosa, AL 35406	Other Media	Subordinated Debt, 12.50% fixed, 04/15/2020		26,326
Robertshaw US Holding Corp.	Electronics	First Lien Secured Debt,		15,711

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191 East North Avenue			L+700, 06/18/2019	
Carol Stream, IL 60188				
Roto Holdings, Inc.	Manufacturing /	Subordinated Debt,	2.5%	16,189
800 Howerton Lane	Basic Industries	11.00% fixed, 05/13/2021		
Eureka, MO 63025		Preferred Equity		
		Common Equity		
Sonny s Enterprises, LLC	Manufacturing / Basic Industries	Subordinated Debt,		13,034
5605 Hiatus Road		11.00% fixed, 06/01/2023		
Tamarac, FL 33321				
Sotera Defense Solutions, Inc.	Aerospace and Defense	First Lien Secured Debt,		36,981
2121 Cooperative Way, Ste. 400		L+750, 04/21/2017		
Herndon, VA 20171				
Sunborn Oy, Sunborn Saga Oy <sup>(6)</sup>	Hotels, Motels, Inns and Gaming	First Lien Secured Debt,		39,993
Juhana Herttuan puistokatu 23, FI-20100		L+1,050 (PIK 350), 07/01/2019		
Turku, Finland				
Triad Manufacturing, Inc.	Manufacturing / Basic Industries	First Lien Secured Debt,		27,036
4321 Semple Avenue		L+1,075 <sup>(5)</sup> , 12/28/2020		
St. Louis, MO 63120				
Trust Inns Limited	Buildings and Real Estate	First Lien Secured Debt,		27,220
Blenheim House Foxhole Road		L+1,050 <sup>(5)</sup> , 02/12/2020		
Ackhurst Park Chorley				
Lancashire PR7 1NY				
US Med Acquisition, Inc.	Healthcare, Education and Childcare	First Lien Secured Debt,		8,630
8260 NW 27th Street, Suite 401		L+900, 08/13/2021		
Doral, FL 33122				

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Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest <sup>(1)</sup> , Maturity	Voting Percentage Ownership <sup>(2)</sup>	Fair Value (in thousands)
U.S. Well Services, LLC 770 South Post Oak Lane, Ste. 405 Houston, TX 77056	Oil and Gas	First Lien Secured Debt, L+1,350 <sup>(5)</sup> PIK, 05/02/2019		13,193
VT Buyer Acquisition Corp. 290 West Mount Pleasant Avenue, Suite 3200 Livingston, NJ 07039	Business Services	Second Lien Secured Debt, L+975, 01/30/2023		12,863
WD Wolverine Holdings, LLC 500 Eagle Landing Drive Lakeland, FL 33810	Healthcare, Education and Childcare	Second Lien Secured Debt, L+950, 10/17/2024		6,488
<b>Companies 5% to 24% Owned</b>				
Affinion Group Holdings, Inc. (Affinion Group, Inc.) (Affinion International Holdings Limited) <sup>(6)</sup> 6 High Ridge Park Stamford, CT 06850	Consumer Products	Second Lien Secured Debt, L+700, 10/31/2018 Subordinated Debt, 7.50% fixed (PIK 4.00%), 07/30/2018 Common Equity	9.0%	61,101
American Gilsonite Company 29950 South Bonanza Highway Bonanza, UT 84008	Diversified Natural Resources, Precious Metals and Minerals	First Lien Secured Debt, 15.00% PIK fixed, 12/31/2021 Subordinated Debt 17.00% PIK fixed, 12/31/2021 Common Equity	9.2% <sup>(7)</sup>	18,131
Cano Health, LLC (ITC Rumba, LLC) 680 N. University Drive Pembroke Pines, FL 33024	Healthcare, Education and Childcare	First Lien Secured Debt <sup>(4)</sup> , L+1,000, 12/23/2021 Common Equity	6.9%	11,804
Corfin Industries LLC (Corfin InvestCo, L.P.) 7B Raymond Avenue Salem, NH 03079	Aerospace and Defense	First Lien Secured Debt <sup>(4)</sup> , L+975, 11/25/2020 Common Equity <sup>(4)</sup>	9.5%	26,069
DirectBuy Holdings, Inc. 8450 Broadway	Consumer Products	Subordinated Debt, , 11/05/2019 Common Equity	10.4%	1,670

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Merrillville, IN 46410		Warrants		
EnviroSolutions Real Property Holdings, Inc.	Environmental Services	Second Lien Secured Debt, L+800, 12/26/2017 Common Equity	13.7% <sup>(7)</sup>	22,761
(EnviroSolutions Holdings, Inc.)				
11220 Asset Loop, Ste. 201				
Manassas, VA 20109				
ETX Energy, LLC	Oil and Gas	Subordinated Debt, 12.50% PIK fixed, 05/03/2021 Common Equity	12.0% <sup>(7)</sup>	45,743
(ETX Energy Management Company, LLC)				
10441 S. Regal Blvd. Ste. 210				
Tulsa, OK 74133				
PAS International Holdings, Inc.	Aerospace and Defense	First Lien Secured Debt L+500, (PIK 1.00%), 03/21/2017 Preferred Equity Common Equity	22.0% <sup>(7)</sup>	15,524
(PAS Technologies, Inc.)				
1234 Atlantic Street				
North Kansas City, MO 64116				



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Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest <sup>(1)</sup> , Maturity	Voting Percentage Ownership <sup>(2)</sup>	Fair Value (in thousands)
Service Champ, Inc. (New Service Champ Holdings, Inc.) 180 New Britain Blvd. Chalfont, PA 18914	Auto Sector	Subordinated Debt, 12.50% fixed, 10/02/2017 Common Equity	7.7%	35,537
TRAK Acquisition Corp. 1001 Brickell Bay Drive, 27 Floor Miami, FL 33131	Business Services	First Lien Secured Debt, L+1,050, 04/30/2018 Common Equity	23.1% <sup>(7)</sup>	28,456
<b>Companies 25% or More Owned</b> MidOcean JF Holdings Corp. 1330 St. Mary s Street, Ste. 210 Raleigh, NC 27605	Distribution	Preferred Equity Common Equity	35.7% <sup>(7)</sup>	9,600
RAM Energy LLC (RAM Energy Holdings LLC) 2100 South Utica Avenue, Ste. 165 Tulsa, OK 74114	Energy and Utilities	First Lien Secured Debt, L+800 PIK, 07/18/2019 Common Equity	100% <sup>(7)</sup>	70,480
Superior Digital Displays, LLC (Superior Digital Displays Holdings, Inc) 125 Park Ave. 25th Floor New York, NY 10017	Media	First Lien Secured Debt, L+1,300 PIK, 12/31/2018 Second Lien Secured Debt, L+1,500 PIK, 07/01/2019 Preferred Equity Common Equity	57.7% <sup>(7)</sup>	32,436
<b>Total Investments</b>				<b>\$ 1,325,544</b>

- (1) Represents basis point spread above index for floating rate instruments, or fixed rate for instruments if no index is indicated, that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or Prime rate, or P. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (2) Voting ownership percentage refers only to common equity, preferred equity and warrants held, if any, were we to have voting rights.
- (3) Less than 0.1% voting ownership percentage
- (4) Includes the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment, that does not earn a basis point spread above an index while it is unfunded.
- (5) Coupon is not subject to a LIBOR or Prime rate floor.
- (6) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets.
- (7) Indicates that we hold voting seats on portfolio companies' boards of directors.

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Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5% of our total assets as of December 31, 2016:

**Parq Holdings Limited Partnership (Hotels, Motels, Inns and Gaming)**

Parq Holdings Limited Partnership is constructing a gaming and hotel complex in downtown Vancouver, Canada.

**Pre-Paid Legal Services, Inc. (Personal, Food and Miscellaneous Services)**

Pre-Paid Legal Services, Inc. provides legal services and identity theft monitoring and protection to its members.

**RAM Energy LLC (Energy and Utilities)**

RAM Energy LLC is an exploration and production company focused on operations in the Arkansas-Louisiana-Texas and Permian regions.

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets (excluding cash and cash equivalents) in such industries as of:

<b>Industry Classification</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Hotels, Motels, Inns and Gaming	17%	13%
Consumer Products	8	9
Personal, Food and Miscellaneous Services	7	8
Aerospace and Defense	6	5
Business Services	6	7
Energy and Utilities	5	6
Environmental Services	5	5
Financial Services	5	3
Distribution	4	6
Electronics	4	2
Manufacturing / Basic Industries	4	4
Oil and Gas	4	5
Auto Sector	3	3
Healthcare, Education and Childcare	3	2
Retail	3	3
Buildings and Real Estate	2	2
Building Materials	2	2
Media	2	5
Other Media	2	3
Printing and Publishing	2	3
Diversified Natural Resources, Precious Metals and Minerals	1	
Other	5	4
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Table of Contents****MANAGEMENT**

Our business and affairs are managed under the direction of our board of directors. The board of directors currently consists of five members, or directors, four of whom are not interested persons of PennantPark Investment as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our Independent Directors. Our board of directors elects our officers, who serve at the discretion of the board of directors.

**Board of Directors**

Under our charter, our directors are divided into three classes and are elected for staggered terms of three years each, with a term of office of one of the three classes of directors expiring each year. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Information regarding the board of directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Expiration of Term</b>
<b>Independent Directors</b>				
Adam K. Bernstein	53	Director	2007	2018
Marshall Brozost	49	Director	2007	2020
Jeffrey Flug	54	Director	2007	2018
Samuel L. Katz	51	Director	2007	2020
<b>Interested director</b>				
Arthur H. Penn	53	Chairman of the Board and Chief Executive Officer	2007	2019

**Executive Officer Who is Not a Director**

The following information pertains to our officer who is not a director of PennantPark Investment Corporation.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Aviv Efrat	52	Chief Financial Officer and Treasurer

**Officer Who is Not a Director**

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The following information pertains to our executive officer who is not a director of PennantPark Investment Corporation.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Guy F. Talarico	61	Chief Compliance Officer

The address for each director and executive officer is c/o PennantPark Investment Corporation, 590 Madison Avenue, 15th Floor, New York, New York 10022.

### ***Board of Directors Composition and Leadership Structure***

The 1940 Act requires that at least a majority of our directors not be interested persons (as defined in the 1940 Act) of the Company. Currently, four of our five directors are Independent Directors. The Chairman of our board of directors is our Chief Executive Officer and therefore an interested person of us. The Independent Directors believe that the combined position of Chief Executive Officer and Chairman of the board of directors results in greater efficiencies in managing us by eliminating the need to transfer substantial information quickly and repeatedly between the Chief Executive Officer and the Chairman and by offering the ability to capitalize on the specialized knowledge acquired from the duties of the roles. The board of directors has not identified a lead Independent Director; however, it has determined that its leadership structure, in which 80% of the directors are Independent Directors and, as such, are not affiliated with the Investment Adviser or the Administrator, is appropriate in light of the services that the Investment Adviser and the Administrator provide us and the potential conflicts of interest that could arise from these relationships.

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### ***Board of Directors Risk Oversight Role***

The board of directors performs its risk oversight function primarily through (1) its three standing committees, described more fully below, which report to the board of directors and are comprised solely of Independent Directors and (2) monitoring by our Chief Compliance Officer in accordance with our compliance policies and procedures.

As described below in more detail under Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee, the board of directors Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee assist the board of directors in fulfilling its risk oversight responsibilities. The Audit Committee's risk oversight responsibilities include overseeing our accounting and financial reporting processes, including the annual audit of our financial statements and systems of internal controls regarding finance and accounting, pre-approving the engagement of an independent registered public accounting firm to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent registered public accounting firm. The Nominating and Corporate Governance Committee's risk oversight responsibilities include selecting, researching and nominating directors for election by our stockholders, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the directors and our management. The Compensation Committee's risk oversight responsibilities include determining, or recommending to the board of directors for determining, the compensation of the Company's chief executive officer and all other executive officers, paid directly by the Company, if any, and assisting the board of directors with matters related to compensation, as directed by the board of directors. The Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee consist solely of Independent Directors.

The board of directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. Our Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures and certain of its service providers. The Chief Compliance Officer's report, which is reviewed by the board of directors, addresses at a minimum: (1) the operation of our compliance policies and procedures and certain of our service providers since the last report; (2) any material changes to such policies and procedures since the last report; (3) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (4) any compliance matter that has occurred since the date of the last report about which the board of directors would reasonably need to know to oversee our compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the Independent Directors at least once each year.

We believe that the board of directors' role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a BDC. Specifically, as a BDC, we must comply with certain regulatory requirements that control the levels of risk in our business and operations. For example, our ability to incur indebtedness is limited by the asset coverage ratio set forth in the 1940 Act (including any relief thereto provided by the SEC), and we generally must invest at least 70% of our total assets in qualifying assets. In addition, we elected to be treated as a RIC under the Code. As a RIC, we must, among other things, meet certain income source and asset diversification requirements.

We believe that the extent of the board of directors' and its committees' roles in risk oversight complements the board of directors' leadership structure. Because they are comprised solely of Independent Directors, the Audit Committee, the Nominating and Corporate Governance Committee and Compensation Committee are able to exercise their oversight responsibilities without any conflict of interest that might discourage critical questioning and review. Through regular executive session meetings with our independent registered public accounting firm, Chief Compliance Officer and Chief Executive Officer, the Independent Directors have similarly established direct communication and oversight channels that the board of directors believes foster open communication and early detection of issues of concern.

We believe that the board of directors' role in risk oversight must be evaluated on a case by case basis and that the current configuration and allocation of responsibilities among the board of directors and its committees with respect to the oversight of risk is appropriate. However, the board of directors and its committees continually re-examine the manner in which they administer their respective risk oversight functions, including through formal annual assessments of performance, to ensure that they meet our needs.

### **Biographical Information**

The board of directors believes that, collectively, the directors have balanced and diverse experience, qualifications, attributes and skills, which allow the board of directors to operate effectively in governing us and protecting the interests of our stockholders. Below is a description of the various experiences, qualifications, attributes and/or skills that each director possesses and, which the board of directors considered to be an effective director. Our directors have been divided into two groups—interested directors and Independent Directors. Interested directors are interested persons as defined in the 1940 Act.



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### ***Independent Directors***

Adam K. Bernstein (53), Director. Mr. Bernstein became a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in February 2007 and October 2010, respectively. Mr. Bernstein is currently President of The Bernstein Companies, a Washington, D.C.-based real estate investment and development firm which he joined in 1986. Mr. Bernstein runs a diversified company that includes a Hotel division, a Private Real Estate Investment Trust, and a structured financed group that focuses on tax credit syndication and project lending for community development projects nationwide. In 2012, Mr. Bernstein was appointed to the Board of Overseers of the School of Arts and Sciences at the University of Pennsylvania.

Marshall Brozost (49), Director. Mr. Brozost became a Director of PennantPark Investment Corporation and PennantPark Floating Rate Capital Ltd. in February 2007 and October 2010, respectively. Since July 2016, Mr. Brozost has been a Partner at Orrick, Herrington & Sutcliffe LLP, where he practices in the real estate and private equity groups. Prior to Orrick, Herrington & Sutcliffe LLP, Mr. Brozost practiced law at O Melveny & Myers LLP from 2001 to 2004; Solomon & Weinberg LLP from 2004 to 2005; Dewey & LeBoeuf LLP from 2005 to 2012; Schulte Roth & Zabel, LLP from 2012 to 2016. Mr. Brozost also served as a Vice President of Nomura Asset Capital Corporation from 1997 through 2000.

Jeffrey Flug (54), Director. Mr. Flug became a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in February 2007 and October 2010, respectively. From 2009 to June 2015, Mr. Flug held a variety of senior positions, including, most recently, President, with Union Square Hospitality Group, an exclusive chain of restaurants. Since September 2014, Mr. Flug has served as a director of Shake Shack, Inc. From October 2012 to September 2015, Mr. Flug was a director of Sears Hometown and Outlet Stores, Inc. Mr. Flug was Chief Executive Officer and Executive Director of Millennium Promise Alliance, Inc. from 2006 to 2008. Millennium Promise is a non-profit organization whose mission is to eradicate extreme global poverty. Mr. Flug was Managing Director and Head of North American Institutional Sales at JP Morgan's Investment Bank from 2000 to 2006. From 1988 to 2000, Mr. Flug was Managing Director for Goldman Sachs & Co. in its Fixed Income Division.

Samuel L. Katz (51), Director. Mr. Katz became a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in February 2007 and October 2010, respectively. Mr. Katz is the Managing Partner of TZP Group, LLC, a private equity fund he formed in 2007. Prior to joining TZP Group, Mr. Katz was Chief Executive Officer of MacAndrews & Forbes Acquisition Holdings, Inc. from 2006 through 2007. From 1996 through 2005, Mr. Katz held a variety of senior positions at Cendant Corporation, including, most recently, Chairman and Chief Executive Officer of the Cendant Travel Distribution Services Division from 2001 to 2005. From 1992 to 1995, Mr. Katz invested in private and public equity as Co-Chairman of Saber Capital, Inc. and Vice President of Dickstein Partners Inc. From 1988 to 1992, Mr. Katz was an Associate and Vice President at The Blackstone Group, where he worked on numerous private equity transactions, including the initial leveraged buyouts of several hotel franchise brands which created the predecessor to Cendant Corporation. From 1986 to 1988, Mr. Katz was a Financial Analyst at Drexel Burnham Lambert.

### ***Interested Director***

Arthur H. Penn (53), Founder, Chief Executive Officer and Chairman of the board of directors. Mr. Penn became the Chief Executive Officer and a Director of PennantPark Investment and PennantPark Floating Rate Capital Ltd. at their inception in 2007 and 2010, respectively. He also founded and became Managing Member of PennantPark Investment Advisers in January 2007. Mr. Penn co-founded Apollo Investment Management in 2004, where he was a Managing Partner from 2004 to 2007. He also served as Chief Operating Officer of Apollo Investment Corporation from its inception in 2004 to 2006 and served as President and Chief Operating Officer of that company in 2006. Mr. Penn was formerly a Managing Partner of Apollo Value Fund L.P. (formerly Apollo Distressed Investment Fund, L.P.) from 2003 to 2006. From 2002 to 2003, prior to joining Apollo, Mr. Penn was a Managing Director of CDC-IXIS Capital Markets. Mr. Penn previously served as Global Head of Leveraged Finance at UBS Warburg LLC (now UBS Investment Bank) from 1999 through 2001. Prior to joining UBS Warburg, Mr. Penn was Global Head of Fixed Income Capital markets for BT Securities and BT Alex Brown Incorporated from 1994 to 1999. From 1992 to 1994, Mr. Penn served as Head of High-Yield Capital Markets at Lehman Brothers.

### ***Executive Officer and Officer who are not Directors***

Aviv Efrat (52), Chief Financial Officer and Treasurer. Mr. Efrat became Chief Financial Officer and Treasurer of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in February 2007 and October 2010, respectively. Mr. Efrat is also a Managing Director of PennantPark Investment Administration, LLC. Mr. Efrat was a Director at BlackRock, Inc., where he was responsible for a variety of administrative, operational, and financial aspects of closed-end and open-end registered investment companies from 1997 to 2007. From 1994 to 1997, Mr. Efrat was in the Investment Companies Business Unit at Deloitte & Touche LLP. He is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Guy F. Talarico (61), Chief Compliance Officer. Mr. Talarico became Chief Compliance Officer of PennantPark Investment and PennantPark Floating Rate Capital Ltd. in May 2008 and March 2011, respectively. Mr. Talarico has held the position of Chief Compliance Officer for a number of investment advisers, private funds and investment companies from 2004 when he founded Alaric Compliance Services, LLC.

### **Committees of the Board of Directors**

For the fiscal year ended September 30, 2016, we held five board of directors meetings, four Audit Committee meetings, one Nominating and Corporate Governance Committee meeting and one Compensation Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the board of directors and of the respective committees on which they served. We require each director to make a diligent effort to attend all board of directors and committee meetings, and encourage directors to attend the annual stockholders' meeting. For the fiscal year ended September 30, 2016, four of the directors attended the annual stockholders' meeting.





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**Table of Contents*****Audit Committee***

The members of the Audit Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the NASDAQ and NYSE corporate governance rules. Messrs. Flug and Katz serve as Co-Chairmen of the Audit Committee. The Audit Committee operates pursuant to an Audit Committee Charter approved by the board of directors. The charter sets forth the responsibilities of the Audit Committee, which include; selecting or retaining each year an independent registered public accounting firm (the auditors ) to audit our accounts and records; reviewing and discussing with management and the auditors our annual audited financial statements, including disclosures made in management s discussion and analysis of financial condition and results of operations, and recommending to the board of directors whether the audited financial statements should be included in our annual report on Form 10-K; reviewing and discussing with management and the auditors our quarterly financial statements prior to the filings of our quarterly reports on Form 10-Q; pre-approving the auditors engagement to render audit and/or permissible non-audit services; reviewing and approving all related party transactions; and evaluating the qualifications, performance and independence of the auditors. The Audit Committee is also responsible for aiding our board of directors in fair valuing our portfolio securities that are not publicly traded or for which current market values are not readily available. The board of directors and Audit Committee use the services of nationally recognized independent valuation firms to help them determine the fair value of certain securities. Our board of directors has determined that each of Messrs. Flug and Katz is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K under the Exchange Act. The Audit Committee Charter is available on our website [www.pennantpark.com](http://www.pennantpark.com).

***Nominating and Corporate Governance Committee***

The members of the Nominating and Corporate Governance Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the NASDAQ and NYSE corporate governance rules. Messrs. Bernstein and Brozost serve as Co-Chairmen of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board of directors or a committee of the board of directors, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the board of directors and our management. The Nominating and Corporate Governance Committee has adopted a written Nominating and Corporate Governance Committee Charter that is available on our website [www.pennantpark.com](http://www.pennantpark.com).

The Nominating and Corporate Governance Committee will consider stockholder recommendations for possible nominees for election as directors when such recommendations are submitted in accordance with our bylaws, the Nominating and Corporate Governance Committee Charter and any applicable law, rule or regulation regarding director nominations. Nominations should be sent to Thomas J. Friedmann, Secretary, c/o PennantPark Investment Corporation, 590 Madison Avenue, 15th Floor, New York, New York 10022. When submitting a nomination to us for consideration, a stockholder must provide all information that would be required under applicable SEC rules to be disclosed in connection with election of a director, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; directorships on publicly held companies and investment companies during the past five years; number of shares of our common stock owned, if any; and a written consent of the individual to stand for election if nominated by the board of directors and to serve if elected by the stockholders.

Criteria considered by the Nominating and Corporate Governance Committee in evaluating the qualifications of individuals for election as director of the board of directors include: compliance with the independence and other applicable requirements of the NASDAQ corporate governance rules and the 1940 Act, and all other applicable laws, rules, regulations and listing standards; the criteria, policies and principles set forth in our Nominating and Corporate Governance Committee Charter; and the ability to contribute to our effective management of the Company, taking into account our needs and such factors as the individual s experience, perspective, skills and knowledge of the industry in which we operate. The Nominating and Corporate Governance Committee has not adopted a formal policy with regard to the consideration of diversity in identifying individuals for election as members of the board of directors, but the Nominating and Corporate Governance Committee will consider such factors as they may deem are in the best interests of us and our stockholders. Those factors may include a person s differences of viewpoint, professional experience, education and skills, as well as his or her race, gender and national origin. In addition, as part of the board of directors annual-self assessment, the members of the Nominating and Corporate Governance Committee evaluate the membership of the board of directors and whether the board of directors maintains satisfactory policies regarding membership selection.

***Compensation Committee***

The Compensation Committee is responsible for determining, or recommending to the board of directors for determining, the compensation of the Company s chief executive officer and all other executive officers, paid directly by the Company, if any. The Compensation Committee also assists the board of directors with all matters related to compensation, as directed by the board of directors. The current members of the Compensation Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the NASDAQ corporate governance rules. As discussed below, none of our executive officers is directly compensated by the Company and, as a result, the Compensation Committee does not produce and/or review and report on executive compensation practices. The Compensation

Committee Charter is available on the Company's website [www.pennantpark.com](http://www.pennantpark.com).

**Table of Contents****Compensation of Directors and Executive Officer**

The following table shows information regarding the compensation paid by us to our directors for the fiscal year ended September 30, 2016. No compensation is paid directly by us to any interested director or executive officer of the Company.

Name	PennantPark Investment Corporation			PennantPark Floating Rate Capital, Ltd.		
	Aggregate compensation from the Company	Pension or retirement benefits accrued as part of our expense <sup>(1)</sup>	Total paid to director/officer	Aggregate compensation from the Company	Pension or retirement benefits accrued as part of our expense <sup>(1)</sup>	Total paid to director/officer
<b>Independent directors</b>						
Adam K. Bernstein	\$ 122,500	None	\$ 122,500	\$ 61,250	None	\$ 61,250
Marshall Brozost	\$ 122,500	None	\$ 122,500	\$ 61,250	None	\$ 61,250
Jeffrey Flug	\$ 132,500	None	\$ 132,500	\$ 63,750	None	\$ 63,750
Samuel L. Katz	\$ 132,500	None	\$ 132,500	\$ 63,750	None	\$ 63,750
<b>Interested director</b>						
Arthur H. Penn	None	None	None	None	None	None
<b>Executive officer</b>						
Aviv Efrat <sup>(2)</sup>	None	None	None	None	None	None

(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits from us.

(2) Mr. Efrat is an employee of the Administrator.

Each Independent Director receives an annual payment of \$110,000 for services performed on behalf of us as a director. The Independent Directors also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board of directors meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting (unless combined with a board of directors meeting). In addition, each Co-Chairman of the Audit Committee receives an annual fee of \$12,500 and each Co-Chairman of any other committee receives an annual fee of \$2,500 for his additional services in these capacities. Also, we have purchased directors' and officers' liability insurance on behalf of our directors and officers and indemnify such persons against certain losses. Independent Directors have the option to receive their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of NAV or the market price at the time of payment. No compensation is expected to be paid to directors who are interested persons (as defined in the 1940 Act).

**Portfolio Managers, or Senior Investment Professionals, Biographical Information.**

Our Investment Adviser has three experienced senior investment professionals in addition to Mr. Penn. These senior investment professionals of the Investment Adviser have worked together for many years and average over 25 years of experience in the senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Below is a summary of their biographical information. Our senior investment professionals receive no compensation from us. The compensation of these individuals is paid by our Investment Adviser and compensation includes a base salary and a bonus contingent upon past and future performance.

Jose A. Briones joined PennantPark Investment Advisers in December 2009. Previously, Mr. Briones was a Partner of Apollo Investment Management, L.P. and a member of its investment committee since 2006. He was a Managing Director with UBS Securities LLC in the Financial Sponsors and Leveraged Finance Group from 2001 to 2006. Prior to joining UBS he was a Vice President with JP Morgan in the Global Leveraged Finance Group from 1999 to 2001. From 1992 to 1999, Mr. Briones was a Vice President at BT Securities and BT Alex Brown Inc. in the Corporate Finance Department.

Salvatore Giannetti III joined PennantPark Investment Advisers in February 2007. Previously, Mr. Giannetti was a Partner in the private equity firm Wilton Ivy Partners since 2004. He was a Managing Director at UBS Securities LLC in its Financial Sponsors and Leveraged Finance Group from 2000 to 2001. From 1997 to 2000, Mr. Giannetti was a Managing Director in the Investment Banking Division at Deutsche Bank (joining BT Securities and BT Alex Brown Inc.). From 1986 to 1997, Mr. Giannetti worked in the Investment Banking, Syndicated Loan &

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Private Equity groups at Chase Securities Inc. and its predecessor firms, Chemical Securities and Manufacturers Hanover.

P. Whitridge Williams, Jr. joined PennantPark Investment Advisers in March 2007. Previously, Mr. Williams was a Managing Director in the Financial Sponsors and Leveraged Finance Group at UBS Securities LLC. Mr. Williams worked at UBS and predecessor firms, including Dillon Read and Co. Inc. from 1996 to 2007. During Mr. Williams' tenure at UBS, he spent four years as a senior member of the Telecom, Media and Technology Group.

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In addition to managing our investments, as of September 30, 2016, our portfolio managers also managed investments on behalf of the following entities:

Name	Entity	Investment Focus	Gross Assets (\$ in millions)
PennantPark Floating Rate Capital Ltd.	Business development company Direct Lending	Primarily floating rate loans, with an emphasis on senior secured loans, in middle-market leveraged companies.	\$631

Other Managed Fund      Fund      Other credit opportunities      \$ 70

The management and incentive fees payable by PennantPark Floating Rate Capital Ltd. are based on the gross assets and performance of PennantPark Floating Rate Capital Ltd., respectively.

**Table of Contents****CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

As of April 20, 2017, to our knowledge, no person would be deemed to control us, as such term is defined in the 1940 Act. Our board of directors consists of an interested director and Independent Directors.

The following table sets forth, as of April 20, 2017, certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5 percent or more of our outstanding common stock and all officers and directors, as a group.

Name and Address <sup>(1)</sup>	Type of Ownership <sup>(3)</sup>	Shares Owned	Percentage of Common Stock Outstanding
<b>Independent directors</b>			
Adam K. Bernstein	Record/Beneficial	46,430	*
Marshall Brozost	Record/Beneficial	21,169	*
Jeffrey Flug	Record/Beneficial	320,560	*
Samuel L. Katz	Record/Beneficial	189,291	*
<b>Interested director</b>			
Arthur H. Penn <sup>(2)</sup>	Record/Beneficial	663,323	0.9%
<b>Executive officer</b>			
Aviv Efrat	Record/Beneficial	96,102	*
All directors and executive officer as a group (6 persons)		1,336,875	1.9%

(1) The address for each officer and director is c/o PennantPark Investment Corporation, 590 Madison Avenue, 15th Floor, New York, New York 10022.

(2) Mr. Penn is the Managing Member of the Investment Adviser and may therefore be deemed to own beneficially the 469,923 shares of PennantPark Investment Corporation held by the Investment Adviser.

(3) Sole voting power.

\* Less than 1 percent.

**Table of Contents*****Dollar Range of Securities Beneficially Owned by Directors and Senior Investment Professionals***

The following table sets forth the dollar range of our common stock beneficially owned by each of our directors and senior investment professionals as of December 31, 2016. Information as to the beneficial ownerships is based on information furnished to us by such persons. We are not part of a family of investment companies, as that term is defined in the 1940 Act.

<b>Directors</b>	<b>Dollar Range of the Common Stock of the Companies<sup>(1)</sup></b>		
	<b>PennantPark Investment Corporation</b>	<b>PennantPark Floating Rate Capital Ltd.</b>	<b>Total</b>
<b>Independent directors</b>			
Adam K. Bernstein	\$100,001 - \$500,000	\$ 50,001 - \$100,000	\$100,001 - \$ 500,000
Marshall Brozost	\$100,001 - \$500,000	None	\$100,001 - \$ 500,000
Jeffrey Flug	Over \$1,000,000	\$100,001-\$500,000	Over \$1,000,000
Samuel L. Katz	Over \$1,000,000	Over \$1,000,000	Over \$1,000,000
<b>Interested director</b>			
Arthur H. Penn <sup>(2)</sup>	Over \$1,000,000	Over \$1,000,000	Over \$1,000,000
<b>Senior Investment Professionals</b>			
Jose A. Briones	\$500,001 - \$1,000,000	Over \$1,000,000	Over \$1,000,000
Salvatore Giannetti III	\$100,001 - \$500,000	Over \$1,000,000	Over \$1,000,000
P. Whitridge Williams, Jr.	\$500,001 - \$1,000,000	Over \$1,000,000	Over \$1,000,000

(1) Dollar ranges are as follows: None; \$1-\$10,000; \$10,001-\$50,000; \$50,001-\$100,000; \$100,001-\$500,000; \$500,001-\$1,000,000; or over \$1,000,000.

(2) Also reflects holdings of PennantPark Investment Advisers, LLC.

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**CERTAIN RELATIONSHIPS AND TRANSACTIONS**

**Investment Management Agreement**

PennantPark Investment has entered into the Investment Management Agreement with the Investment Adviser under which the Investment Adviser, subject to the overall supervision of PennantPark Investment's board of directors, manages the day-to-day operations of, and provides investment advisory services to, us. Mr. Penn, our Chairman and Chief Executive Officer, is the managing member and a senior investment professional of, and has a financial and controlling interest in, PennantPark Investment Advisers. PennantPark Investment, through the Investment Adviser, provides similar services to our SBIC Funds under their respective investment management agreements. Such investment management agreements do not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Under the terms of our Investment Management Agreement, the Investment Adviser:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);

closes and monitors the investments we make; and

provides us with such other investment advisory, research and related services, as we may need from time to time.

PennantPark Investment Advisers' services under our Investment Management Agreement are not exclusive, and it is free to furnish similar services, without the prior approval of our stockholders or our board of directors, to other entities so long as its services to us are not impaired. Our board of directors monitors for any potential conflicts that may arise upon such a development. For providing these services, the Investment Adviser receives a fee from PennantPark Investment, consisting of two components—a base management fee and an incentive fee, or collectively, Management Fees.

***Investment Advisory Fees***

The base management fee is calculated at an annual rate of 2.00% of our average adjusted gross assets which equal our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45<sup>th</sup> day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the year ended September 30, 2016 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of base management fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2016 and 2015, the Investment Adviser earned base management fees of \$5.3 million (after a waiver of \$1.0 million) and \$5.5 million (after a waiver of \$1.0 million), respectively, from us. For the years ended September 30, 2016, 2015 and 2014, the Investment Adviser earned base management fees of \$20.9 million (after a waiver of \$4.0 million), \$26.7 million and \$24.3 million, respectively, from us.

The following is a hypothetical example of the calculation of average adjusted gross assets:

Gross assets as of December 31, 20XX = \$160 million

U.S. Treasury bills and temporary draws on credit facilities as of December 31, 20XX = \$10 million

Adjusted gross assets as of December 31, 20XX = \$150 million



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Gross assets as of March 31, 20XX = \$200 million

U.S. Treasury bills and temporary draws on credit facilities as of March 31, 20XX = \$20 million

Adjusted gross assets as of March 31, 20XX = \$180 million

Average value of adjusted gross assets as of March 31, 20XX and December 31, 20XX, which are the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter =  $(\$150 \text{ million} + \$180 \text{ million}) / 2 = \$165 \text{ million}$ .

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees, other than fees for providing managerial assistance, such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio

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companies accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (as defined below), and any interest expense and distributions paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 100% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle but is less than 2.1875% in any calendar quarter (8.75% annualized) (we refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.1875%) as the catch-up, which is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income, as if a hurdle did not apply, if this net investment income exceeds 2.1875% in any calendar quarter), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter, once the hurdle is reached and the catch-up is achieved, 20% of the Pre-Incentive Fee Net Investment Income thereafter is allocated to our Investment Adviser. These calculations are prorated for any share issuances or repurchases during the relevant quarter, if applicable. For the year ended September 30, 2016 and through December 31, 2017, the Investment Adviser has voluntarily agreed, in consultation with the board of directors, to irrevocably waive 16% of incentive fees, correlated to our 16% energy exposure (oil & gas and energy & utilities industries) at cost as of December 31, 2015. For the three months ended December 31, 2016 and 2015, the Investment Adviser earned and incentive fee of \$2.9 million (after a waiver of \$0.5 million) and \$3.2 million (after a waiver of \$0.6 million), respectively, from us. For the fiscal years ended September 30, 2016, 2015 and 2014, the Investment Adviser earned \$13.5 million (after a waiver of \$2.5 million), \$20.6 million and \$17.8 million, respectively, in incentive fees on net investment income from us.

The following is a graphical representation of the calculation of quarterly incentive fee based on Pre-Incentive Fee Net Investment Income:

*Pre-Incentive Fee Net Investment Income*

*(expressed as a percentage of the value of net assets)*

*Percentage of Pre-Incentive Fee Net Investment Income*

*allocated to income-related portion of incentive fee*

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the three months ended December 31, 2016 and 2015 and fiscal years ended September 30, 2016, 2015 and 2014 the Investment Adviser did not earn an incentive fee on capital gains, as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid or accrued in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. For the three months ended December 31, 2016 and 2015 and the years ended September 30, 2016, 2015 and 2014, our unrealized and realized capital gains did not exceed our cumulative realized and unrealized losses and therefore resulted in no accrual for capital gains incentive fees under GAAP.



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**Examples of Quarterly Incentive Fee Calculation**

**Example 1: Income Related Portion of Incentive Fee (\*):**

**Alternative 1:**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle<sup>(1)</sup> = 1.75%

Base management fee<sup>(2)</sup> = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 0.55%

Pre-Incentive Net Investment Income does not exceed the hurdle; therefore there is no incentive fee.

**Alternative 2:**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle<sup>(1)</sup> = 1.75%

Base management fee<sup>(2)</sup> = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 2.00%

$$\begin{aligned}
 \text{Incentive fee} &= 20\% \times \text{Pre-Incentive Fee Net Investment Income, subject to catch-up} \\
 &= 2.00\% - 1.75\% \\
 &= 0.25\% \\
 &= 100\% \times 0.25\%
 \end{aligned}$$

= 0.25%

**Alternative 3:**

*Assumptions*

Investment income (including interest, dividends, fees, etc.) = 3.00%

Hurdle<sup>(1)</sup> = 1.75%

Base management fee<sup>(2)</sup> = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income (base management fee + other expenses)) = 2.30%

Incentive fee = 20% x Pre-Incentive Fee Net Investment Income, subject to catch-up<sup>(3)</sup>  
 Incentive fee

Catch-up = 100% x catch-up + (20% x (Pre-Incentive Fee Net Investment Income - 2.1875%))

= 2.1875% - 1.75%

= 0.4375%

= (100% x 0.4375%) + (20% x (2.30% - 2.1875%))

= 0.4375% + (20% x 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

(\* ) The hypothetical amount of Pre-Incentive Fee Net Investment Income shown is based on a percentage of net assets.

(1) Represents 7.0% annualized hurdle.

(2) Represents 2.0% annualized base management fee.

(3) The catch-up provision is intended to provide the Investment Adviser with an Incentive fee of approximately 20% on all of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our net investment income exceeds 2.1875% in any calendar quarter.

**Table of Contents****Example 2: Capital Gains Portion of Incentive Fee:***Assumptions*

Year 1 = no net realized capital gains or losses

Year 2 = 6% net realized capital gains and 1% realized capital losses and unrealized capital depreciation, capital gain incentive fee = 20% x (realized capital gains for year computed net of all realized capital losses and unrealized capital depreciation at year end)

$$\begin{aligned}
 \text{Year 1 incentive fee} &= 20\% \times (0) \\
 &= 0 \\
 \\
 \text{Year 2 incentive fee} &= \text{no incentive fee} \\
 &= 20\% \times (6\% - 1\%) \\
 &= 20\% \times 5\% \\
 &= 1\%
 \end{aligned}$$

**Organization of the Investment Adviser**

PennantPark Investment Advisers is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or the Advisers Act. The principal executive office of PennantPark Investment Advisers is located at 590 Madison Avenue, 15th Floor, New York, NY 10022.

**Duration and Termination of Investment Management Agreement**

The Investment Management Agreement was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2017. Unless terminated earlier as described below, the Investment Management Agreement will continue in effect for a period of one year through February 2018. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons of us or the Investment Adviser. In determining to reapprove the Investment Management Agreement, our board of directors requested information from the Investment Adviser that enabled it to evaluate a number of factors relevant to its determination. These factors included the nature, quality and extent of services performed by the Investment Adviser, our ability to manage conflicts of interest effectively, our short and long-term performance, our costs, including as compared to comparable externally and internally managed publicly traded BDCs that engage in similar investing activities, our profitability and any economies of scale. Based on the information reviewed and the considerations detailed above, our board of directors, including all of our directors who are not interested persons of us or the Investment Adviser, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and reapproved the Investment Management Agreement as being in the best interests of our stockholders.

The Investment Management Agreement will automatically terminate in the event of its assignment. The Investment Management Agreement may be terminated by either party without penalty upon 60 days' written notice to the other. See **Risk Factors** **Risks Relating to our Business and Structure**. We are dependent upon our Investment Adviser's key personnel for our future success, and if our Investment Adviser is unable to hire and retain qualified personnel or if our Investment Adviser loses any member of its management team, our ability to achieve our investment objectives could be significantly harmed for more information.

**Administration Agreements**

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We have entered into an agreement, or the Administration Agreement, with the Administrator, under which the Administrator furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services. Under our Administration Agreement, the Administrator performs, or oversees the performance of, our required administrative services, which include, among other activities, being responsible for the financial records we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, the Administrator assists us in determining and publishing our NAV, oversees the preparation and filing of our tax returns and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. PennantPark Investment, through the Administrator, provides similar services to our SBIC Funds under their administration agreements with us. For providing these services, facilities and personnel, we reimburse the Administrator for its allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of compensation and related expenses of our Chief Compliance Officer and Chief Financial Officer and their respective staffs. The Administrator also offers, on our behalf, managerial assistance to portfolio companies to which we are required to offer such assistance. To the extent that our Administrator outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to the Administrator. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the three months ended December 31, 2016 and 2015, the Investment Adviser was reimbursed \$0.5 million and \$0.3 million, respectively, from us, including expenses incurred on behalf of the Administrator, for the services described above. For the fiscal years ended September 30, 2016, 2015 and 2014, the Investment Adviser was reimbursed \$3.7 million, \$3.3 million and \$3.0 million, respectively, from us, including expenses it incurred on behalf of the Administrator for the services described above.

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### ***Duration and Termination of Administration Agreement***

The Administration Agreement was reapproved by our board of directors, including a majority of our directors who are not interested persons of PennantPark Investment, in February 2017. Unless terminated earlier as described below, our Administration Agreement will continue in effect for a period of one year through February 2018. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons of us. The Administration Agreement may not be assigned by either party without the consent of the other party. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other.

### ***Indemnification***

Our Investment Management Agreement and Administration Agreement provide that, absent willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations, PennantPark Investment Advisers and PennantPark Investment Administration and their officers, manager, partners, agents, employees, controlling persons, members and any other person or entity affiliated with them are entitled to indemnification from PennantPark Investment for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of PennantPark Investment Advisers and PennantPark Investment Administration's services under our Investment Management Agreement or Administration Agreement or otherwise as Investment Adviser or Administrator for PennantPark Investment.

### ***License Agreement***

We have entered into the License Agreement with PennantPark Investment Advisers pursuant to which PennantPark Investment Advisers has granted us a royalty-free, non-exclusive license to use the name PennantPark. Under this agreement, we have a right to use the PennantPark name, for so long as PennantPark Investment Advisers or one of its affiliates remains our Investment Adviser. Other than with respect to this limited license, we have no legal right to the PennantPark name.



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**DETERMINATION OF NET ASSET VALUE**

The NAV per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

As a BDC, we generally invest in illiquid securities including debt and equity investments of middle-market companies.

We expect that there will not be readily available market values for many of the investments, which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described herein. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference could be material. Our investments are generally structured as debt and equity investments in the form of senior secured debt, mezzanine debt and equity co-investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy as described below.

With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's preliminary valuations in light of its own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;
- (4) The audit committee of our board of directors reviews the preliminary valuations of the Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assess the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two brokers or dealers, if available, or otherwise from a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

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To the extent we invest in derivative instruments in the future, such instruments would be valued in accordance with our valuation policy.

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting period date.

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ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

### **Determinations In Connection With Offerings**

In connection with each offering of shares of our common stock, our board of directors or a committee thereof is required to make the determination that we are not selling shares of our common stock at a price below the then current NAV of our common stock at the time at which the sale is made or otherwise in violation of the 1940 Act unless we receive the consent of the majority of our common stockholders to do so, and the board of directors decides that such an offering is in the best interests of our common stockholders. Our board of directors will consider the following factors, among others, in making such determination:

the NAV of our common stock disclosed in the most recent periodic report that we filed with the SEC;

our management's assessment of whether any change in the NAV of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recent public filing with the SEC that discloses the NAV of our common stock and ending two days prior to the date of the sale of our common stock; and

the magnitude of the difference between the offering price of the shares of our common stock in the proposed offering and management's assessment of any change in the NAV of our common stock during the period discussed above.

Whenever we do not have current stockholder approval to issue shares of our common stock at a price per share below our then current NAV per share, the offering price per share (exclusive of any distributing commission or discount) will equal or exceed our then current NAV per share, based on the value of our portfolio securities and other assets determined in good faith by our board of directors as of a time within 48 hours (excluding Sundays and holidays) of the sale. See [Sales Of Common Stock Below Net Asset Value](#) for more information.

In addition, we will only sell shares of our common stock at a price below net asset value per share if the following conditions are met:

A majority of our independent directors who have no financial interest in the sale must have approved the sale; and

A majority of such directors, in consultation with the underwriters of the offering if it is to be underwritten, must have determined in good faith, and as of a time immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of those shares, less any underwriting commission or discount.



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We may, however, subject to the requirements of the 1940 Act, issue subscription rights to acquire our common stock at a price below the current NAV of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current NAV per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, we note that for us to file a post-effective amendment to this registration statement on Form N-2, we must then be qualified to register our securities on Form N-2. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders may experience dilution.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations of the board of directors described in this section, and we will maintain these records with other records that we are required to maintain under the 1940 Act.

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**DIVIDEND REINVESTMENT PLAN**

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our board of directors authorizes, and we declare, a cash dividend or other distribution, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distribution.

No action is required on the part of registered stockholders to have their cash dividend or other distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying American Stock Transfer & Trust Company, LLC, the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive dividends or other distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant's account, issue a certificate registered in the participant's name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive dividends and other distributions in cash by notifying their broker or other financial intermediary of their election.

Generally, we intend to issue new shares to implement the plan, when our shares are trading at a premium to our NAV per share. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the NASDAQ Global Select Market on the valuation date for such distribution. Market price per share on that date will be the closing price for such shares on the NASDAQ Global Select Market or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the dividend or other distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

Except as described below, the plan administrator's fees will be paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant's account and remit the proceeds to the participant, the plan administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share brokerage commissions from the proceeds. Additionally, there are brokerage commissions, currently \$0.03 per share, incurred in connection with open market purchases.

Stockholders who receive dividends and other distributions in the form of stock are generally subject to the same federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. A stockholder's basis for determining gain or loss upon the sale of stock received in a dividend or other distribution from us will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a dividend or other distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder's account.

Participants may terminate their accounts under the plan by notifying the plan administrator via its website at [www.amstock.com](http://www.amstock.com) or by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the plan should be directed to the plan administrator by mail at American Stock Transfer & Trust Company, LLC, 6201 15<sup>th</sup> Avenue, 3<sup>rd</sup> Floor, Brookly